Economics minister leads attack by Bonn government on group's autumn report

FT No. 31,284 THE FINANCIAL TIMES LIMITED 1990

Tuesday October 23 1990

World News

### Philips and Saddam to release some Du Pont to US and UK hostages: disc venture

President Saddam Hussein of iraq agreed to release several male US and UK hostages and raised the prospect of freeing all French nationals being used as human shields. Page 22

Big Bhutto welcome Despite being denied access to Labore's main rally sites, sacked Pakistani prime minis ter Benazir Bhutto made a triumphal entry into Labore. At least 100,000 people turned out to welcome her. Photograph,

EC lifts sanctions European Community foreign ministers agreed to end sancthe UK blocked moves to lift Syrian restrictions. Page 22

Anger at Bush veto President George Bush, in a move which will anger black groups and women, plans to veto a civil rights bill making it easier for workers to win discrimination cases. Page 6

More daughter guits The daughter of Italy's mur-dered ex-premier Aldo Moro said she was resigning from the roling Christian Democrats in protest at its refusal to save her father while he was held

200

12.00E

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74.2 74.2

100 4 125

Surrogate loses A judge at Senta Ana, California, ruled that a surrogate mother, Anna Johnson, 29, has no parental rights to a haby she carried for an intertile couple. She had been paid \$10,000.

Philippines murder Four gammen murdered moder-ate Philippine labour leader Oscar Lazaro, 58, and commu-nist hit squads said they would tomorrow's general strike.

Egypt opens tombs Egypt opened the torals of nobles, high priests and ancient revally, allowing a glimper infer their past for the first that the since archeologism

US pays its dues US has paid \$40m toward its delinquent UN dues of over \$50m, giving the world body enough cash to keep operating through November, UN off-

Links broken Kenya said it was breaking

off diplomatic relations with Norway following a bitter row over the activities of Kenyan Shamir survives

Israeli prime minister Ylizhak Shamir berely deleated a noconfidence motion in partiament over his policies since forming a right wing government four menths ago. The

vote was 52 to 51. Princess barmed Princess Anne, daughter of England's Queen Elizabeth, was fined a total of £150 and banned from driving for one month by magistrates in Glou cestershire after she admitted

Mozambique change Mozambique parliament unanimously approved a clause in the new constitution recognis-ing specifically for the first time the role of market forces in the economy. Page 4

Japan upsets China Taiwan and China both denotypeed Japan for repelling a Taiwanese group from the Diacyutai islands over which all three claim sovereignty. Page 4

Sanity test

An Indian district judge threw out a petition to compel Prims Minister V.P. Singh to undergo the Lanacy Act, The lawyer bringing the case sought to call the premier's wife as wit-ness. Temple crisis, Page 4

# **Business Summary** end compact

Philips of the Netherlands and Du Pont of the US are to unravel their four-year-old joint venture for the manufac ture of compact discs and pro-fessional discs. Philips will scquire the consumer side of the business and both partners will dispose of the venture's professional disc operations.

Philips intends to sell parts of the consumer disc operation to PolyGram, its London-based, 80 per cent-owned recorded ic subsidiary. Page 23

did not sustain their appeal, as the more sombre Monday morning mood in New York was anticipated on the continent. In Frankfurt, the DAX index closed 7.58 lower at 1,474.51 after the FAZ cased 0.30 to 634.85 at midsession. In Tokyo, the Nikkei closed at 25,070.86, up 589.37. Back Page, Section II

EUROPEAN economic and monetary union (Emu): speculation over the date for starting was heightened after a meeting of EC foreign minis-ters in Luxembourg. Page 22

TIME Warner, debt-laden media and entertainment con-glomerate that controls Time Magazine and Warner Brothers in Hollywood, unveiled a \$91m third quarter loss, against a pro forms loss of \$124m last

EUROPEAN Community plans to provide substantial short-term financial sid to the Soviet Union appeared to recede further in Luxembourg. Page 2

(\$295.5m) over the next five years on manufacturing plant in France, Spain and the UK for diesel engine injection systems. Page 23

moved to quell growing specu-tation that the country will spece afterincial crisis when it is fixed to turn to the world market for oil from next Janu-ary. Page 3

URUGUAY Round talks on the liberalisation of the \$600bm a year world trade in services has moved into a decisive

UNION Cartide, US chemicals group, suffered a 35 per cent drop in third quarter net income on increasing oil prices in the wake of the Gulf crisis.

Page 24 ALGERIAN authorities are to press ahead with a pro-gramme under which they will provide collateral to encourage international banks to grant

producer, was hit by lower nickel prices which pushed earnings down by almost a

SOUTH Korea's economy will grow by almost 9 per cent this year in real terms despite the impact of the Gulf crisis, the

Page 6

COOKSON, heavily indebted cent stake in Tioxide, the pigments manufacturer, to ICI, its partner in the joint venture for £160m (\$815.2m). Page 23 ARCO, Los Angeles-based oil

and gas company, reported essentially unchanged third quarter net earnings of \$382m.

EGYPTIAN authorities have approved a \$560m takeover of the ailing al Rayan investment company whose owners were accused of defrauding

MARKETS: Lower oil prices

LUCAS Industries, UK automo-tive group, is to invest £150m.

HUNGARIAN officials have

phase. Page 8

it new loans. Page 4 INCO, world's leading nickel

quarter in the three months to September 30. Page 24

governor of its central bank recast. Page 4

VENEZUELA has agreed to stretch over four decades the repayment period for long-overdue Nicaraguan oil debts.

UK industrial materials group, has agreed to sell its 50 per

its investors of \$716m.

# German economic research institutes

'too pessimistic'

THE German government yesterday took the unusual step of criticising the autumn report of the country's five leading economic research institutes as "too pessimistic".

The attack was led by Mr Helmut Haussmann, economics minister, who predicts all-German economic growth next year of 2.5 per cent to 3 per cent compared with the institutes' more pessimistic forecast

of 15 per cent.

The trade unions and the opposition Social Democrats immediately tried to use the pessimistic tone of the report and several specific criticisms of government policy to emharrass the centre-right coalition. But the government's faith in a faster turnaround in eastern

PRINCE Sultan bin Abdul-Aziz,

the Saudi Arabian defence minister and brother of King Fahd, has hinted that Kuwait

ought to consider making terri-torial concessions to Iraq if Baghdad withdraws troops

from Kuwaiti territory.

The conciliatory tone of his remarks, made to Arab journalists in Riyadh on Sunday, has alarmed the Kuwaiti govern-

It has also surprised the US and other western countries. In Washington, Prince Bandar, the Saudi ambassador was

called in to explain the defence

minister's statement. The White House said Prince Bandar, had assured the US

that there was no change in

withdrawal of Iraqi forces from

Since Iraq's invasion of Kuwait, Saudi Arabia has been

among the most hawkish of Arab governments in demand-

ing an unconditional with-

drawal. However, of all the Saudi royal family, Prince Sul-

tan has been the most anxious

to avoid war.
"The Arab countries are

Kuwait.

electoral appeal in East Ger-many, was backed by the Fed-eration of German Industry. In their report published yesterday, the institutes also pre-dict that inflation next year will rise to 4 per cent from 25 per cent tids year. The number of unemployed is likely to reach about 3.4m, or 10 per cent of the workforce, despite the creation of 500,000 new jobs in the western part of the

The jobless figure in east Germany will rise to 1.4m, in addition to which 1.75m people will be on short-time working.

The cash needed to pay for this east German unemployment will rise from about DM10bn (\$6.60hn) this year to DM30bn next year, the five institutes say. The overall inte-

Saudi hints at need for

**Kuwaiti land concessions** 

rights," Prince Sultan was quoted as saying. "Any Arab who has a claim on his brother

should take it by understand-

ing, not force."
In September he surprised

In September he surprised Saudi Arabia's allies by saying the kingdom would not be used as a launching pad for an attack on Iraq' forces. Referring on Sunday to Iraq's claim to Kuwaiti islands at the head of the Gulf, he safd Saudi Arabia saw "no harm in any Arab country giving its Arab sisterland a aite or a position on the sea."

He said: The Arab countries

are ready to give Iraq all its rights."
Iraq invaded Knwait on August 2 and amnexed the whole country but diplomate

attempting to resolve the crisis

suggest that Iraq may be satisfied with the islands of Bubi-

yen and Warbs and a part of

northern Kuwait that comprise the Rumeilah olifiekis.

on the sec."

gration of East Germany, excluding the budget of the Treuhand privatisation agency, will require DM70bn in extra borrowing this year and DM90bn next year. The overall public sector deficit will be DM100bn this year and at least DM120bn next year.

Dividing the country along its former lines, the institutes are predicting a fall in West German GNP growth from this year's 4 per cent to 2.5 per cent and an absolute fall in East German GNP of 16 per cent this year and a further 10 per cent next year. They say the low point of eastern Germany's economy has not yet been reached, but the turnsround should begin next summer. The east German economy is

unconditional withdrawal was

unacceptable.
The defence minister's

remarks may be designed to persuade Iraq to withdraw without any more bloodshed as Saudi Arabia's allies continue their military build-up on the Saudi frontier with Ruwst.

Efforts to push Iraq out of Ruwait by diplomatic means and to reinforce the determination of Saudi Arabia's allies with a credible US-led military

threat, have continued in

threat have continued in recent days.

Yesterday, President Hosni Maharak of Egypt, arrived in northern Saudi Arabia to review his troops. He is due to meet King Fahd in Jeddah. Also in the kingdom is General Colin Powell, chairman of the tre Lieut Ching of Shaff.

US Joint Chiefa of Staff.
Prince Sultan, looking ahead
to a post-crisis Gulf, also made

a conciliatory gesture towards Iran. "We were all pleased with Iraq's withdrawal from Iranian

territory and giving the frater-nal Moslem county what it believes to be its right," he was

quoted as saying. Saudi Arabia and Kuwait



the bridge to the former Kast bloc and has lost most of its east European orders as well as 50 per cent of its domestic consumer goods market. A separate report from the Bundesbank says that eastern Germany's industrial produc

tion fell 51 per cent in August compared with last year. The institutes admit that they underestimated the costs of German unity and overestimated the willingness of private capital to invest in east-ern Germany. They now predict that only DMSbn of pri-vate capital will be invested this year, rising to DM15bn, or 20 per cent of total investment, next year.
They reject tax increases as

World

steeply

By Steven Butler in London

crude oil

prices fall

six weeks — as traders con-cluded that prospects for a peaceful resolution to the Gulf

peaceth resumment to the Guir crisis appear to have improved. Airlines and chemicals com-panies, whose businesses have been hit badly by rising fuel and feedstock costs, stand to benefit most. Jet fuel, recently

quoted at more than \$500 a

tonne, was yesterday trading at about \$385 a tonne, down \$40

on the day. Naptha, a chemical feedstock, was off \$45 a tonne

morning when Prince Sultan Ibn Abdul Aziz, the Saudi

defence minister, was reported to have opened the door to negotiations over Iraq's territo-

negotiations over may a termo-rial demands after an eventual withdrawal from Kuwait.

The efforts of Mr Edward Heath, the former British prime minister, to gain the release of hostages was also interpreted as a hopeful sign. Traders said that the dissipa-

a means of paying for unity but say that savings of between DM20bn and DM30bn could be made swiftly by cutting western Germany's regional subsidies and defence spending.

The institutes are implicitly critical of rapid wage increases in eastern Germany, which have damaged its attractive-ness as an investment site, and also of the Bonn government's recent decision to raise pensions by 15 per cent.

The government's instruc-tions to the Treuhand are also criticised for laying too much stress on restructuring enterprises before privatising them. Continued on Page 22

Oil price Brent blend crude (\$ per barrel)

WORLD crude oil prices fell steeply yesterday – to below \$30 a barrel for the first time in

tion of "war psychology" lay behind yesterday's heavy declines, but added that crude oil was in abundant supply. "We've been concerned for some weeks that the underly-ing fundamentals of crude were very soit," said the head of one large trading operation. Dislocations in the mar-Dislocations in the mar-ket - when buyers found themselves without Kuwaiti

worked through the system. North Sea Brent crude oil for December delivery closed down \$5.50 at \$26.65 a barrel in European trading. At the New York Mercantile Exchange, Novem-ber futures for the West Texas Intermediate were off \$4.29 a barrel at \$29.50 at midday. The Egyptian government cut the benchmark Suez blend by \$6 to

\$26 a barrel. Commodities, Page 33

### **US** budget negotiators launch fresh attempt to end impasse

Φ D 8523A

By Peter Riddell, US Editor, in Washington

DEMOCRAT and Republican DEMOCRAT and Republican congressional negotiators yes-terday resumed their attempt to end the US budget crisis with both sides attempting to lower the temperature as Mr Richard Darman, the budget director, returned to the talks. Late on Sunday, the budget talks faltered after Mr John Sununu, White House chief of staff, angrily claimed that talks had broken down over taxing the wealthy. However, Senator George Mitchell, the Democrat majority leader, said yesterday that the breakdown was "a tempest in a teapot".

Most of the outstanding issues in the Worker.

issues in the \$500bn five-year deficit reduction plan have been agreed. The main dis-agreement causing Sanday's stalemate is over the means, not the principle, of taxing the rich and over savings on Medi-care health provision for the

elderly. The White House believes it has already made large concessions in accepting a levelling out of the bubble in the US tax code so that all those earn above \$78,000 a year would pay a marginal income tax rate of 31 per cent, instead of present rates of 33 and 28 per

It is no longer insisting on a cut in capital gains tax and has offered to accept a modified version of a Senate plan which would limit tax deductions for those earning more than \$100,000 a year.

The Democrats, who want to ensure that the wealthy face the largest tax increases, have proposed either a top tax rate of 32 per cent or 31 per cent plus an additional 7.5 per cent series on those earning more than \$1m a year.

They want to use the money to limit cutbacks in Medicare and the size of the increase in federal petrol/gasoline tax (now likely to be five or six cents a gallon rather than the 9.5 cants originally proposed).

The problem with limiting tax deductions is that the from states with high local taxes - such as California and New York - object if their vot-ers would be unable to deduct all of their state taxes.

The votes of House Demo-crats from these states are needed if any plan is to pass. Because of the opposition of a sizeable group of House Republicans to any likely Continued on Page 22 Analysis, Page 6

### Saudi officials insisted last night the country's official position, demanding a com-plete Iraqi withdrawal, had not changed and Prince Sultan was quoted as saying on Sunday that anything other than an supported Iraq following its invasion of Iran in 1980. ready to give Iraq all its Banco di Roma takeover set to create country's biggest bank

ITALY'S second biggest savings bank, the Cassa di Ris-parmio di Roma, is negotiating to take over Banco di Roma, one of three state-owned "banks of national interest", in a deal which would create the country's biggest bank.

country's biggest bank.

Talks have reached an advanced stage. The transaction, which may be announced by the end of this month, will represent the biggest leap to date in the rationalisation of the Balian banking sector. It would also mark a step in the partial privatisation of haly's banking sector. IRI, the state holding company which currently owns 81 per cent of Banco di Roma, is expected only to take a minority stake in the new venture, although the majority of its shares the majority of its shares would still be publicly-owned. The merged banks will create a powerful force in central Haly, where they are likely to hold immense influence over the local description of Roma is

di Risparmio di Roma is

already planning to buy out

the remaining 49 per cent stake in Banco di Santo Spirito,

Christian Democrat

politician has acquired

and authority by trying

a greater public role

another regional bank in central lialy, which it does not already own.

Observers say support for the Rome Cassa, which will subsequently trade under the Banca di Santo Spirito name, to take over Banco di Roma, is running very high initial political indications are believed to be favourable, while the Bank be favourable, while the Bank of Italy has given strong sup-port. However, reaction at Banco di Roma, the weakest of the three "banks of national interest", may be less warm. As matters stand, Cassa di Risparmio di Roma is lialy's 13th biggest bank, with \$25.4bm in total assets, while Banco di Santo Spirito ranks 17th, with assets of \$20.6bm. Buying Banco di Roma would put the combined institutions just ahead of Iştituto Bancario San Paolo di Torino, which is cur-rently Italy's biggest bank. It is not yet clear what effect the transaction would have on Banco Hispano Americano and Commerzbank, the Spanish and German partner banks of

Banco di Roma, which have long been nursing ambitions of

buying into its capital.

A three-way link between the Rome Cassa, Santo Spirito and Banco di Roma has been criticised on the grounds that the resulting institution will have too dominant a position in central Italy and inadequate

representation elsewhere.

However, supporters of the deal argue that a "super-regional" bank will be able to maximise profitability though its sway over the local deposit market, while the inclusion of Banco di Roma will add an ele-ment of international coverage which the two other banks

In any event, the new bank, which will probably not be created until well into next year at the earliest, will require a heaty rationalisation period to avoid flagrant duplication of

However, the new bank is not expected to allow much room for encroachment by out-siders. It may even maintain some element of duplication by keeping alive both names names and possibly trading under two distinct brands.

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Editorial Comments To be in Emu or not to be; A worthwhile training aid ..... Foreign Affairs New era for nations in Lext Markets; Cookson; Lucas; Oil; Hammer-

Surveyer Italian industry, Canada ...

Italian president Fran-cesco Cossiga visits London today. The to act as a non-parti

san guardian of the

lew York cla \$1.9425 (1.9595) London: \$1.9490 (1.9595) DM2.9550 (2.945) FF19.8900 (9.885) SFr2.4950 (2.4875) Y245.50 (246.75) **New York: Comex Dec** \$372.4 (376.8) \$388.25 (372.5)

N SEA Off. (Argus)

MARKETS

Y125.975 (125.95) DM1.5160 (1.5025) FFr5.0750 (5.035) SFr2.2805 (1.2895) \$ index 80.4 (80.2) Tokyo close: Y126.25 US closing tales Fed Funds 753% (7%) 3-me Treasury Bills: yield: 7.45% (7.444) Long Bend: 9031 (9911) yield: 8.742% (8.75)

DOLLAR

New York close

DM1.51805 (1.5015)

FFr5.0815 (5.0275)

1,015,13 (+0.5%) New York close D.I Ind. Av. 2,516.08 (-4.70) S&P Comp 314.76 (+2.28) Tokye: Nikkei

25,070.86 (+589.37) POMBON MONKA closing 1316 % (1327)

STOCK MUICES

FT-SE 100:

2,102 (+13.0)

FT Ordinary: 1,633.6 (+12.1)

FT-A All-Share

Brent 15-day \$26.65 (32,15) Chief price changes yesterday: Page 23

# trained on Soviet Union

MR MICHEL ROCARD, the French prime minister, yesterday named the Soviet Union as a primary reason for France's continued reliance on nuclear deterrence.

In a surprisingly explicit speech to the Institute for National Defence Studies, he called for the development of a European defence policy and for nuclear defence co-operation between France

and Britain.

He argued that stability came from the reciprocity of deterrence, and pointed out that "the USSR remains a considerable military power,

considerable military power, especially in nuclear terms".

The possibility of Franco-British co-operation in the nuclear field is likely to be discussed in London today at a regular meeting between the two defence ministers. In particular, the British government is considering whether to adopt the planned French ASLP long-range

air-launched nuclear missile, as a replacement for its ageing gravity nuclear bombs. The ASLP project is a central element in the choice

of the next generation of French strategic nuclear weapons. This is now scheduled to be taken before the end of the year, and will include the elimination of one leg of its strategic nuclear triad.

The choice lies between the development of a new generation of \$4 land-based missiles to replace the 18 \$3 ballistic silo-launched missiles ballistic silo-launched missiles in southern France, or the go-ahead for the ASLP 1,200km-range missile, as a replacement for the medium-range ASMP missile. The third leg of the Franch nuclear triad, the submarine-launched ballistic missiles, will continue to be improved, with more modern missiles and a new generation

missiles and a new generation of submarines. The

maintenance of a triad is ruled out on grounds of cost, so a choice must be made between

the other two legs.

In principle the French choice could be influenced by the parallel option being weighed by the British government. The UK is not expected to reach a decision in time to influence the French choice however.

choice, however.
The ASLP (air-sol longue portés) air-launched missile has been under serious discussion between France and Britain as a possible candidate for joint development since the middle

of last year.

A British decision in favour of the ASLP would be a major plus for the project. But French officials assert that the French chicals assert that the French choice will not be dependent on a British decision, and they evidently do not expect that the British government will make up its mind in time to weigh in the French decision.

# EC downgrades Moscow aid

PROSPECTS of the European Community providing substantial short-term financial aid to the Soviet Union appeared to recede further in Luxembourg

yesterday.

EC foreign ministers held a brief discussion on the issue but it now seems likely that no radical decisions will be taken at next week's special EC

summit in Rome. Help for the Soviet Union was at one stage to have been the main item on the agenda, following instructions to the European Commission by heads of government at the

Dublin summit in June. But there seems to be a growing consensus that the Soviet Union is too politically volatile and too poorly served by reliable statistics to qualify for a large scale bail-out at the

a more focused programme, with support for specific infrastructure, involving the private sector as far as possible.

The foreign ministers, however, did achieve one tangible result yesterday by finally signing a trade and

economic co-operation agreement with Romania. This had been prepared in time for the EC general affairs council in June but was postponed in the light of the brutal suppression of political dissent in Bucharest that month.

The EC has decided that the time is now right to go ahead

time is now right to go ahead with the accord - which offers trade concessions on Romanian goods - due to the release of those detained in the June disturbances, the readmission of the International Red Cross and the government's wide ranging proposals for economic reform.

# French nuclear sights still Crime prevention in the market poses problems for Soviet police

wave, and demoralised security services, the Soviet Union's law and order chiefs are only just beginning to face up to the awesome additional prospect of crime prevention in a market

economy.

The problem is that the transition to a market system, finally approved last week by the Supreme Soviet, the national parliament, has far wider implications than simply learning new ways of doing business. It means a rethink of the entire basis of what is gibly called "economic crime" in the Soviet Union.

gibly called "economic crime" in the Soviet Union.

For years, "speculation" has been a grievous crime in the Soviet system. It means buying something at fixed state prices, and reselling it at a profit. In the market economy, speculation is likely to become normal business practice.

business practice.

Yesterday the most powerful men in the security services, including Mr Vladimir Kryuchkov, the head of the KGB, the state security committee, and Mr Vadim Bakatin, the interior Mr Vadim Bakatin, the interior minister, tried to tackle the issue at a press conference on crime-fighting. The end result was almost total confusion both about what they think they are fighting, and how they are going about it.

Mr Kryuchkov certainly saw matters more simply than his colleagues, blaming the explosion of crime on the streets, and the equally rapid growth of a black market economy, above all on a surge in organ-

above all on a surge in organ-ised crime. He then went fur-ther, and charged that joint ventures, laboriously negoti-ated between Soviet and west-ern partners to attract foreign investment, were actually milking the economy of "bil-lions of roubles," apparently in



Kryuchkov: naming the guilty parties

"Organised crime has assumed a scale we could never have predicted a couple of years ago," Mr Kryuchkov said, conscious that his own organisation has found a new lease of life, since it was restrained in persecuting political dissidents, in pursuing exactly these sort of criminals. "These gangs are operating with criminals from other countries. The problem is the appearance of rather stable

own intelligence and counter-intelligence.

"But we've got to come to grips with them (joint ven-tures) because our state suffers great losses. You just cannot imagine how much. I estimate the damage running into bil-lions of roubles."

gangs who have contact with the shadow economy."
Joint ventures seemed to be part of the problem in Mr Kryuchkov's eyes. "We are young businessmen. We lack experience," he said. "Our companies don't have their own intelligence and counter-

Yet even Mr Krynchkov admitted that the problem of how the security services opereconomy was "immensely diffi-

Mr Veniamin Yakovlev, the justice minister, was more spe-

cific. Western businessmen regarded "speculation" as normal business practice. "Our criminal code stipulates something as criminal which is perfectly normal in a normal economy," he said.

Moving to a market economy meant that the relevant laws must be repealed. But in the meantime, he declared, anyone guilty of speculation was no better than "a robber," and should be prosecuted with the full force of the law.

Mr Bakatin sought to calm the situation. "Of course crimes are growing, and they may continue to increase for some time. But a market economy provides normal condi-

omy provides normal condi-tions for a normal society. We shouldn't frighten poor people with what it means."

On the other hand, he was

On the other hand, he was equally determined that people with ill-gotten incomes should not profit from the transition to a market. He called for a tough financial inspection service, and mandatory declarations of profits, to stop illegal money laundering through the corrupt Soviet system.

All of which left the audience in some confusion as to who were the criminals, what was a crime, and what the services of law and order intended to do about it.

vices of law and order intended to do about it.

Soviet leader Mikhail Gorb-achev urged restive miners to support the government as it tried to carry out the trans-tion to a market economy, Reu-ter adds from Moscow.

Tass news agency said Mr Gorbachev called on Soviet miners "at this crucial time to display goodwill and support government measures to nor-malise the situation in the country, switch the economy to a market system and improve living standards." Mr Gorbachev made his

appeal in a message to miners' representatives in the Ukrainian mining city Donetsk, The miners, many of whom took part in a nationwide strike in July 1989 to demand more money and greater autonomy, will discuss the formation of a national union to protect their interests and the switch to a

### Moscow expects further fall in oil output

THE Soviet Union's deciming oil output will show amother drop in 1991, Mr Artem Troit-sky, deputy chairman of Gospian, the state planning commission, said yesterday, Renter reports from Moscow.

Official figures released lest week showed production dropped 23.5m tonnes to 45m in the first nine months of this year compared with the same period of 1969. Exports of conds fell 6.3m tonnes.

Mr Troitaky said only massive amounts of new investment in the oil industry could avert continuing production declines. Producers were having difficulties developing new fields because deliveries of equipment were sporadic. Many fields were producing less than anticipated, he said. "We don't think this situation will change in the near future." Mr Troitaky said.

In an attempt to stimulate oil production, the government had decided to pay oil producers hard currency for any output which exceeded planned targets, Mr Troitaky said.

### Mayor attacked over Dresden march

The mayor of Dresden was widely condemned yesterday for permitting a neo-Nazi march through the city centre in which about 500 demonstrators shouted racist slogans and made Hitler salutes, Reuter reports from Berlin.

Jewish leaders, wary of resurgent nationalism in the new united Germany, said democratic tolerance had gone too far. Outraged locals in Dresden called the march a scandal.

This neo-Nazi rally. has

"This neo-Nazi rally. . . has overstepped the limits of demo-cratic tolerance," the leader of Germany's Jewish community, Mr Heinz Galinski, said in a

The demonstrators marched

The demonstraturs marched through Dreaden to the Semper opera house on Saturday afternoon, shouting "foreigners out" and "Deutschland ueber alles ("Germany supreme").

The marchers waved imperial German flags and demanded a return to Garmany's Nazi-era borders, including large chunks of present-day Poland, Czechoslovakia and the Soviet Union.

### Madrid under pressure to protect nature reserve

PLANS for a \$100m tourist development next to Europe's largest nature reserve, the Donana National Park in southern Spain, have suffered a setback following last minute pressure on the local council from Madrid.

Spain's socialist government is believed to have pressured socialist councillors in the town of Almonts not to attend a special council meeting called on Saturday to give planning permission for the

planning permission for the project.
Only nine of 17 socialist councillors attended, depriving the council of a majority necessary to approve it.
Madrid is under intense international pressure to save Donana, a 700 sq km dune and marshland on the Guadalquivir estrary in Andalucia. estuary in Andalucia. Ecologists at the EC, which

against Madrid, accuse Spain of allowing an existing devel-opment - Mata Lascanas - and a 12,000 hectare irrigation project nearby to indiscriminately drain Donana's own subterra-

Water levels under the Don-ana have fallen dramatically in the last five years and succes-sive socialist governments in Andalucia have turned a blind eye to protest in order to pro-tect powerful farming and represents interests in the property interests in the region.

Donana is the half way house to most of the birds which migrate every year between western Europe and Africa. Three years ago pesti-cides released into the park's water system by neighbouring farmers killed at least 30,000

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### **EUROPEAN NEWS**

# Hungary seeks to Bad old ways spoil new-style Romanian politics calm fears of financial crisis

By Nicholas Denton in Budapest

HUNGARIAN officials have moved to quell growing speculation that the country will face a financial crisis when it is forced to turn to the world market for all from next Janu-

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There is no question of rescheduling, said Mr Ference Rabar, the finance minister. Fears of payments problems have arisen as it becomes apparent that the oil price rise and the introduction of world market prices in trade with the Soviet Union. Hungary's main energy supplier, will push the country's current account deep into deficit next year. Hungary will need to finance

a current account deficit of \$1.5bn in 1991, according to finance ministry projections, in addition to \$2.2bn of repayments on the country's \$20bn foreign debt, the highest percapita in eastern Europe. "Taking everything into account, I am not confident

that Hungary can remain cur-rent on debt payments." a senior UK bank economist told Reuters news agency last week. Hungary's respected Economic Research institute has also warned of a threat to

inuidity.

Hungarian national bank officials worry privately that the government's projected deficit cannot be financed, but they are still adamant that there will be no rescheduling. Mr Imre Tarafas, first deputy president of the bank, said that if financing could not be found for the \$1.5bn deficit, then the deficit would have to be reduced. We are not the kind of country or bank to ask for debt-renegotiation." National bank plans call for \$1.2bn of credits in 1991 from international monetary organi-sations and the EC, and for the remainder of financing needs

to be covered by turning to the

capital markets

In the Romania Mare, a far rightwing weekly, many of these allega-tions are spearbeaded by Mr Eugen

TTEMPTS by Romania's gov-ernment to implement a radi-

A ernment to implement a radi-cal economic reform pro-

gramme aimed at paving the way for

the market economy are being blocked by a fragile political system, nationalist propaganda and a conser-

The structures are fragile because

the government must start from

scratch in building social, economic and political institutions which were

destroyed after 40 years of communist.

To compound the problems, Mr Petre Roman, the prime minister, is confronted with a society riven with distrust, lies and suspicion, features

which are partly a hangover of the

Ceausescu era.

But when critics today challenge the country's authoritarian political traditions as a means of explaining

the difficulties in establishing demo-

cratic structures, they are denounced

The nationalist and extreme right-

wing media blame the "enemy" - which includes freemasons, Jews, the

foreign press and the Hungarians -for the country's economic difficul-

vative bureaucracy.

Barbu. As one of Ceausescu's chief he said in a recent interview. propagandists, he poured vitriol on, among others, the Jews. Today, he is one of the editors of Romania Mare, which has a circulation of over 500,000. Unlike many other newspapers, it suffers no shortage of paper.
Thus, as the economy deteriorates, the need for scapegoats continues unabated, and with it, rumour and

In the past, we knew the rules of the game, said Mr Anton Uncu, the editor of Romania Libera, a liberal newspaper. He was imprisoned by Ceausescu in 1989 after he tried to set up an opposition newspaper. "We do not know whom to fear today. The fear is never personalised. Basic instincts are coming to the surface. The golani (hooligans), the fascists, the black marketeers, the freemasons are all blamed for the economic crisis. are all hismed for the economic crisis.
This impersonalised fear turns into hatred and division," he said.
Despite the vacillation between instability and authoritarianism. Mr. Roman says his government is genuinely committed to building democ-

There is no alternative. Maybe we will make mistakes in the details of the reform. Nobody has a good experience of making the transition [from a dictatorship to a multiparty system],"

am of young technocrats creating a stable democracy depend on their ability to attract a broad base of support, which is not yet forthcoming. The National Salvation Front, which won a landslide victory in last May's

elections, has split into factions and is bereft of a policy and a leadership. One group is dominated by young, pro-government technocrats who would be more at home with forming their own social democratic party with Mr Roman. The other, and stronger faction, is made up of conservatives, bureaucrats and largely uneducated deputies who were hand-picked by the Front to stand in the elections. They are adept at blocking change.

For example, Mr Dan Josif, a Front senator, recently suggested that people should set up private businesses in their spare time, and after their day's work in the state-owned enterprises estrict this month, the conservations. prises; earlier this month, the conservatives threw out a government pro-posal which suggested that people should be appointed on the basis of competence. Had it been passed, tens of thousands of bureaucrats would have been dismissed.

The other bastion of opposition

Deep distrust, nationalism and an immovable bureaucracy are the real enemies, writes Judy Dempsey

comes from industry. Here, millions

their livelihood. That rug of security is now being pulled from under their feet as the government embarks on its economic reforms.

In effect, the government has become a victim of its propaganda at last May's elections. During the elec-tions, the Front accused the weak opposition Peasant and Liberal paries of wanting to sell the country to foreign capital.

oday, faced with economic collapse, Mr Roman is in desper-ate need of foreign investment. Sections of the Front, and even larger sections of the workforce, shudder at this prospect. Foreign investment and an influx of foreign managers would diminish the bureaucracy's influence throughout the economy and expose the pervasive corruption and incom-petence. Hence the vulnerability of the government. It has to turn the Front's economic and social policies up-side-down, and risk losing popular apport. It will also lose support from the Front.

Furthermore, the government has little support from the non-Front opposition. The Peasants and Liberal parties remain suspicious following the miners' ransacking of their offices last June. The Hungarian Democratic of workers have relied on the state for Alliance, the second largest opposi-

tion grouping, is ambiguous in its support. The Group of Social Dia-logue, a group of liberal intellectuals, remains aloof from politics.

When they speak out, the nationalist press, which supports President Ion Iliescu, is quick to sow seeds of division between intellectuals and other social groups.

As for Mr Iliescu, so far he has given Mr Roman corte blanche to introduce reforms. But he is reluctant to support the government openly. His instinct is to side with the Front's conservative and populist factions.

Against this background, the gov-rnment could well be sacrificed if it fails to deliver on the economic front. Any collusion between workers, whose economic expectations cannot be met, bureaucrats who fear for their jobs, and nationalists who oppose the democratic system, could rapidly lead to unrest. Were Mr Roman's government to fail, Mr Illescu, or the army, would be tempted to seize power.

For Mr Roman, the only hope is western financial support which could make economic and social reforms more palatable to Romanians and increase the chances of stability. But assistance is slow in coming. And as Mr Roman and his ministers admit, time is not on their side.

### Strike will halt France's legal-system for 24 hours

By William Dawkins in Paris

ALMOST THE entire French Judiciary is today due to grind to a hait as magistrates, legal officials and lawyers mount a 24-hour strike in protest against alleged underfunding by the government.

The stoppage comes four months after the first strike by magistrates in nine years highlighted the judiciary's growing. anger at what it sees as erosion of its powers, lack of staff and poor pay and working condi-

Today's demonstration, by rine unions across the legal profession, is triggered by widespread disappointment at the FFri8bn (£1.8bn) justice budget for 1991, due to be debated in parliament today. debated in parliament today.

Magistrates accept that the budget a real 6.7 per cent rise on the current year, is an improvement, but it falls well short of what they had been led to hope for by repeated promises from Mr Michel Rocard, the prime minister, to tackle the judiciary's problems.

The profession is givening under the weight of a 50 per cent rise in the case load over the past decade, with only a negligible intreach in the number of magistrates are demoralised by poor prespects for job

inflicted by the passing of a law last year which included an amnesty for certain people suspected of using corrupt methods to raise cash for polit-

ical parties. This is the first real test for Mr Henri Nallet, France's new justice minister, who until the cabinet reshuffle early this month was in charge of another notoriously unhappy sector, agriculture. The strike is aimed against Mr Rocard rather than Mr Nallet, who clearly arrived too late to influence the justice budget. So far, Mr Nallet has benefited from his image as an

iong-running problem by mak-ing a good ingression among the sceptical magistrates. He told a weekend confer-ence of the USM, the largest magistrates' union, that he planned to improve salary structures and training for the judiciary, though he was unable to give any specific undertakings on the overall

independent new arrival to this

budget.

You and we have the same diagnosis of the situation, on the basis of which we can start to work together. be said. But he warned. If you want to be

### New view for Yugoslavs

A TELEVISION station alavia, except Serbia, which has refused to broadcast them.

The station would show ing today with the aim of presenting a balanced view of events in the country, Better

seen in most parts of Yugo-

properly understood by public ment, you must be aware that

The station would show news and information pro-

grammes for one hour every evening. Television stations in Yugoslavia are under the con-trol of regional authorities

worthy of a DC faction leader than an occupant of the Quiri-nale, the president's palace.

once a president's palace.

Once a precocious 25-yearold constitutional law professor at the university of his
native Sassari in Sardinia, Mr
Cossiga would undoubtedly
worry about degradation in
Italy's political institutions.

His new activism - which
has see a factivism - which crises of recent years. Now into the fifth year of his seven-year term, the slightly he sees as "getting rid of some stones in my shoe" — and his attack on Mr Orlando may also reflect a desire to renew his tenancy at the Quirinale after

He has made an effort to

presidency into a vehicle for expressing both public concern and dictates of the Cossiga con-science. He increasingly appears to regard the two as in perfect harmony, although his many and frequently contro-versial public declarations this year have earned him public criticism as well as respect. His rebukes of Italian politi-

to open in Limerick

# Cossiga strives to rise above the party fray in Italy

By John Wyles in Rome

MR Francesco Cossiga's initial feeling when he arrives in London today on a three-day state visit will almost certainly be relief. The Italian president was embarrassed three years ago when he was forced to cancel a similar visit by one of the more trivial domestic political

stooped, scholarly 62-year-old Christian Democrat (DC) politi-cian has acquired a greater public role and authority than he had in 1987.

conquer personal reticence and political timidity to fashion his

cians for appearing to reduce every exchange to "a simple contest for power" and his anx-ieties about politicisation of the magistracy have found a wide public echo. But his wounding attack last

month on Mr Leoluca Orlando, the former Mayor of Palermo an anti-mafia culture in Sicily

— "a good lad misled by a
fanatical priest" — was more

US computer plant

Dell Computer Corporation of the US is to set up a factory in Limerick, in Ireland, to manu-facture computers for the European market, writes Mich-ael Skapinker. The plant, which will initially employ 150 receive will be on the site of a people, will be on the site of a former factory used by Atari, another US computer company. That closed in 1985.

his term ends in 1992. To those who see a hidden hand behind recent discovery and publication of 419 photo-copied documents and letters of the late Aldo Moro, the criticism of Mr Cossiga in them will suggest the manoeuvre could be aimed partly at tem-pering such ambitions. Mr Cossiga was interior min-

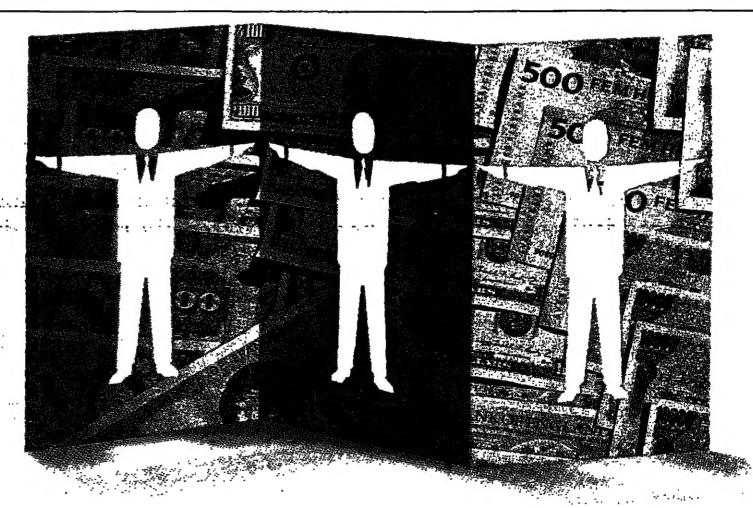
ister during the 55 days Mr Moro was held by the Red Bri-gades and set a precedent in Italy by taking responsibility and resigning his office after

the DC president's murder. He says the trauma of those days "had a great impact on my spiritual and personal life." But no more detailed revela-tion about his suffering could be expected from a man some Italian journalists characterise as "inglese" because of his cool nerve and elusive personality. He admits to a profound admiration for British institutions and legal processes which he believes was nurtured in Sassari, whose traditions are strongly liberal and demo-

He will certainly find the state visit more enjoyable than he does some of the more cere-monial aspects of his role in lialy. He takes some refuge in things mechanical from bore-dom and his intense daily monitoring of Italian politics. Once a passionate radio ham, he is slightly infatuated by electronic gadgetry of all kinds and recently brandished a pocket telephone in front of a group of foreign journalists with almost childish pleasure.



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### INTERNATIONAL NEWS

# Fear reigns in Jerusalem as By Jimmy Burns Virgin refuses to blush over role in Gulf crisis Israel restricts Palestinians

By Hugh Carnegy in Jerusalem

THE Israeli authorities yesterday barred Palestinians from the occupied territories from entering Jerusalem in a bid to prevent further violence

between Arabs and Jews fol-lowing the fatal stabbing of three Jews on Sunday. In the West Bank and Gaza Strip, a Palestinian was reported to have been shot deed and a number waywided in reported to have been snot dead and a number wounded in clashes with the security forces. With Jerusalem pervaded by its recurrent atmosphere of mutual fear and suspicion, a Palestinian youth stabbed a Jewish man in Neve Ya'acov, one of a number of Jewish suburbs built on land captured from Arab hands in captured from Arab hands in the 1967 war.

The victim was not seriously hurt. His assailant escaped. An Israeli soldier was also reported to have been wounded in an axe attack in Gaza. Mean-while, troops sealed the West Bank home of Omar Abu Sir-han, the youth who stabbed to

death a woman soldier, a policeman and a civilian on Sunday apparently in revenge for the killing by Israeli police of 20 Palestinians in Jerusalem's Old City earlier this

Troops, police and paramilitary forces were widely deployed on all routes into Jerusalem and at main junc-tions within the city to prevent further violence by stopping Palestinians from entering. The authorities feared more attacks in answer to calls for revenge by radical groups following the Old City shootings and Israel's refusal to co-operate with a United Nations investigation.

The security forces also warned extremist Jewish groups against carrying out reprisal attacks on Arabs. Two months ago, a Palestinian was killed when his car was stoned by an angry mob protesting against the killing of two Jew-ish youths in the city. This

time, however, there were few reports of such attacks.

The government of Mr Yit-zhak Shamir, the prime minis-ter in the right-wing coalition led by his Likud party, has come under fire from the oppo-

sition Labour Party and other left-wing groups for not offer-ing any political avenue out of this cycle of violence. A series of no-confidence motions was

of no-confidence motions was presented in the Knesset last night, but the coalition narrowly survived thanks to the support of ultra-orthodox religious parties.

Mr Shamir said the Palestinians were reacting violently because their dreams of "salvation" by Baghdad and of destroying Israel were not succeeding. He and his ministers have repeatedly said Palestinian support for Iraq undermined any prospect of negotiations. The prime minister again criticised the US for backing the UN condemnation of the Old City shootings. of the Old City shootings.

AS Virgin Atlantic's spokesman was the first to admit yesterday, the Gulf crisis has not all gone the company's its Boeing 747s to pick up sick and elderly in Baghdad as the result of efforts by Mr Edward

way.
Some "negative" commenta-tors had noted the apparent eagerness with which the airline owned by Mr Richard Branson has tried to steal the limelight in the hostages saga, acknowledged Mr Will White-horn, the Virgin official.

"They think we're jumping on the bandwagon," he said as the company prepared one of conscious entrepreneurs.

Jordanians halt cargoes for Iraq By Victor Mallet in Dhahran

JORDAN has halted the flow of goods to Iraq, previously its main trading partner, to show compliance with United Nations sanctions against Baghdad, Reuter reports from Amman.

Police said yesterday that border authorities had barred all trucks carrying cargo from crossing into Iraq since Friday. The ban includes food and medicine. Jordan has been crit-icised for failing to implement fully the UN embargo on Iraq.

Heath, the former prime minis-

In the view of the cynics, rescuing innocent westerners from the clutches of President Saddam Hussein has joined signing up the See Pistols, flying balloons and opening megastores in the repertoire of one of Britain's most publicity The Virgin official insisted that "Richard" - the chairman

MULTINATIONAL naval forces in the Gulf region yes-terday boarded the same Iraqi terday boarded the same Iraqi flagged freighter for the second time in three days to prevent it delivering a cargo to Yemen in breach of United Nations economic sanctions against Iraq. Boarding parties from the Australian frigate HMAS Adelaide and the USS Reasoner took control of the al-Bahr al-Arabi in the Gulf of Oman. It was the first time in recent

weeks that an Iraqi ship is known to have defied instruc-tions from the multinational forces after being boarded. Since the Iraqi invasion of Kuwait in August the naval forces have made more than 2,500 challenges to shipping and boarded more than 240 ships of which a dozen have been diverted.

three years ago when he helped King Hussein of Jordan

discover the wonders and pit-falls of flying a balloon.

More recently, the company

The al-Bahr al-Arabi, carrying plywood and steel pipes from Iraq to Aden, was first

grant from the British Government's Overseas Development Administration to see if it might provide air-liners to help in the movement of people and equipment caught up in the Gulf crisis.
Since then Virgin has laid on 10 flights to Baghdad and

of Virgin has always been referred to by his staff on first name terms — felt genuinely involved in the plight of the hostages because "he thinks it's the right thing to do".

It emerged yesterday that Mr Branson's relationship with the Middle East was first fired three years ago when he Amman.
Two of these last month brought back western women and children. Other flights have taken medical and food supplies towards the Gulf, and Asian refugees out of it towards Sri Lanka and Bangladesh with the help of a \$200,000 says it was first approached in August by the Ministry of

boarded by US forces in the Gulf itself on Saturday. US offi-

cials say the captain agreed to return north-west to Iraq but

subsequently continued south through the straits of Hormuz.

MR Richard Cheney, US defence secretary, said Iraq had seized a number of US-made Hawk missiles when it invaded Kuwait, George Grant Hawk from Revis The

ham writes from Paris. The

Administration.

According to Virgin, preparations for the latest flight got under way more than a week ago when Mr Heath rang Mr Branson and asked him to help

Virgin refuses to be drawn on why it appears to be playing a somewhat higher profile role in the Gulf crisis than British Airways, although it considers itself less bureaucratic and more friendly than its rival

Iraqi freighter boarded for second time France seeks UN talks on Lebanon FRANCE has asked that the five

permanent members of the UN Security Council convene to dis-cuss the conflicts in Lebanon, AP reports from Paris.

The request follows the defeat this month of rebel General Michel Acum and the assassination on Sunday of Mr Dany Chamoun, one of his main supports of the control of the support porters. Gen Aoun remains holed up in the French Embassy in Beirut. The Lebanese authori-ties have refused to let him go into exile.

### Tokyo fears row with Peking over islands

By Robert Thomson in Tokyo and Peter Wickenden in Taipel

JAPAN is concerned that an argument with Taiwan over a group of long-contested islands in the East China Sea could broaden into a more serious dispute with Peking, which also claims sovereignty over

the island group. China, Japan and Taiwan claim ownership of the five uninhabited islands and three reefs that comprise what Peking calls the Diacyutai group and what Tokyo refers to as the Senkaku Islands, 200km north-east of Taiwan

The islands are said to be surrounded by rich fishing grounds, and there were reports in the late 1960s that the area could contain significant oil reserves, although Tokyo has refrained from extensive testing of the area for fear of antagonising

The Taiwan government yesterday protested at Japanese coastguards' obstruction of a private trip to the islands. On Sunday Japanese naval patrol boats and helicopters blocked two vessels carrying Taiwan-ese athletes from landing on the Islands, where they intended to plant an olympic torch as a symbol of Taiwan's

integral part of Japanese terri-tory" and that the government would deliver a protest note to the Taiwan government, although the two do not have diplomatic relations.

in spite of this, Taiwan will attempt to negotiate with Japan through diplomatic channels and ruled out the use of armed force to solve the dis-

pute. The Japanese action rine Japanese action prompted small protests by Chinese in Taiwan and Hong Kong, but Tokyo is more concerned that Peking will take a strong stand on the issue, which the two countries have transfer to the standard to improve for the standard to improve f tended to ignore for fear of damaging their ties. Peking was annoyed by a

suggestion earlier this month that Tokyo will formally recognise a beacon built on one of the islands by a Japanese right-wing group in 1978 and now apparently in need of ren-

Last week, a Chinese foreign ministry spokesman said that the beacon violated Peking's sovereignty and that the slands had been Chinese terri-tory since "ancient times". A similar statement was made early last year after Mr Souownership.
Mr Misoji Sakamoto, Japan's suke Uno, Japan's foreign minister, suggested the dispute had been solved in Japan's favour.



Posters of sacked prime minister Benazir Bhutto and her main election rival, Nawaz Sharif, in Labore, capital of Punjab province, yesterday where both planned to conduct their final meetings as the campaign came to an official end before tomorrow's voting. Thousands of police carrying riot gear moved on to the streets of the city to control the tens of thousands of supporters of Ms Bhutto's Pakistan People's Party and her rival's Islamic

Democratic Alliance (IDA). Ms Bhutto, who has been drawing massive roadside crowds on her election tours, opted for a motorcade around Lahore after the authorities awarded the main rally sites to the IDA, saying



they asked first. Populous Punjab has more than half the seats in parliament. IDA and PPP flags, bearing the symbols that help a largely illiterate electorate place their ballot marks, festoon Punjah's bezaars in equal profusion in a close-fought compalgn. But local journalists and observers say electioneering is more muted than in 1988, when Ms Ehutto won power after almost 11

President Ghulam Ishaq Khan sacked Ms Bhutto in August, appointed IDA leaders as a caretaker government and set up special courts to charge Ms Bhutto with misrule. Her husband has also been charged with corruption offences.

### Hawk defence system can destroy fighters 40km away. Singh's crisis deepens on Hindu temple issue

By David Housego in New Delhi

THE Indian Prime Minister, Mr V.P. Singh warned in a nationwide television broadcast last night that he was prepared to ngh that he was prepared to sacrifice his government to prevent Hindu fundamentalists from building a temple in northern India on the sits of an

existing mosque.

Earlier in his strongest statement yet Mr Singh backed appeals to Mr L.K. Advani, the leader of the radical Hindu BJP party to call off his rath years (mass pilgrimage) now on its way to Ayodyha, where ceremonies to inaugurate construc-tion are due to be hald on Octo-

ber 30.
Implicitly telling Mr Advani that he faced arrest, Mr Singh said that if the appeal was not heeded, "I shall cease to play a mediatory role... It is my duty to uphold the constitution on which I arrow when I arrowed. which I swore when I assumed the office of prime minister." The BJP said last week that

it would withdraw support from his government if the temple plans were thwarted. Without the support of the BJP, Mr Singh's one-year-old administration would collapse. in a day of mounting tension in both New Delhi and else-where in north India, Mr Singh came under increasing pressure to take tough action against the BJP. Mr Mulayam Singh Yadav, the chief minis-

Ayodyha lies, called for Mr Advani's arrest. Chief minis-ters from other states pledged their support to Mr Yadaveir in maintaining law and order in the state where the Ayodyha disputs could precipitate vio-lent clashes between Hindus and Moslems.

The BJP claimed that 15,000 Hindu militants have been put under preventive arrest in Uttar Pradesh. Three people were killed yesterday and sev-eral wounding in clashes between Hindus and Moslems at Basti in Uttar Pradesh.

at Bast in Utar Fraces.

Ministers were increasingly pessimistic of a compromise being worked out. Mr Dinesh Goswami, the law minister, said he did not believe this was possible to achieve in the present expedience is tracephore. ent emotional atmosphere and in the few days left. He said the government's attention would focus on defusing ten-

a weekend plan under which the government would compulsorily acquire the site, allow-ing a temple to be built on open land while the mosque would be preserved.
In a last attempt to find a solution, the government yesterday appointed a committee. of five chief ministers to renew the search. Two of the chief ministers felled to attend the

This followed the reversal of

# Japan's race row hangs over Mandela visit

South Korean economic growth boosted by investment

represents about 54 per cent of year, real GNP increased by 6.7



THE South Korean economy will grow by almost 9 per cent this year in real terms despite the impact of the Gulf crisis, the governor of its central

bank forecast yesterday, John Ridding writes from Seoul.

However, Mr Kim Kun, gov-

ernor of the Bank of Korea,

added that the country was expected to suffer a current account deficit of about \$1.7bn

because of sluggish exports

THE Japanese government continues to be highly embar-rassed by derogatory remarks about black Americans made by a cabinet minister last month but which have gained significance with the planned Tokyo visit later this week by Mr Nelson Mandela, deputy president of the ANC.

Mr Seiroku Kajiyama, the justice minister, began the con-troversy during a tour of a Tokyo red-light district when he equated the impact of pros-titutes on the area to US neighbourhoods that "become mixed because blacks move in and whites are forced to move out". The comment has drawn

energy requirements.

According to Mr Kim, the Gulf crisis and the economic

slowdown in industrialised countries had forced the cen-tral bank to revise downward its June prediction of a 9 per cent increase in GNP for the

But an unexpected increase

in investment is compensating for much of the decline and

expressions of deep regret from Mr Toshiki Kaifu, the prime minister, and Mr Kajiyama himself, but remains a potent issue, with a US congressional resolution late last week cen-suring the minister.

A US administration's attempt to end the controversy has created confusion in Tokyo, with Mr Kaifu and the Foreign Ministry this weekend strongly denying a White House statement that President George Bush had expressed personal concern to the Japanese prime minister about the slur. The White House spokesman was making the case that enough had been

per cent. On the trade account, how-

ever, the crisis in the Gulf has

ended prospects for a sustained improvement. Current account surpluses in July and September had trimmed the first half deficit of \$1.57bn, but increased

South Korea's principal mar-

kets have prompted expecta-tions of further deficits in the final quarter of the year. Last year, the current account regis-

said on the subject.
There are fears in Tokyo
that the US Congress sees the
comments as an opportunity to launch more general attacks against Japan, and that only Mr Kajiyama's resignation will stop the the criticism.

• Mr Mandela was received as

an honoured guest by the Australian government yesterday but some aborigines were less friendly, Reuter reports from Darwin. Mr Michael Mansell, a lawyer who has set up what he calls a provisional aboriginal government, says Mr Mandela was dealing a blow to Aborigi-nes by accepting the invitation from the government.

tered a surplus of \$5.1bn.
The increase in international oil prices has also increased

oil prices has also increased inflationary pressures in South Korea. Most analysts now believe that the government cannot achieve its target of a single figure rise in the consumer price index and are fore-

Mr Kim called on the govern-

### drug problem worsening By Peter Ellingsen in

China says

CHINA has acknowledged its growing drug problem follow-ing an increase in drug-related arrests and the country's first arrests and the country's first Aids death, an intravenous drug user from southern Yunan province, bordering the notorious "Golden Triangle". Officials say a special task force of 1,300 police has been formed to stem the flow of her-oin and onium through Yunan. oin and opium through Yunan, long known to be a conduit for drugs, largely destined for overseas markets, from Asia's overseas markets, from Asia's key optium-growing regions. Mr Wang Fang, minister for public security, told a meeting of the Heads of National Drug

Law Enforcement Agencies
(Honlea) in Peking that China
would increase co-operation
with international agencies to
hit cross-border trafficking.
The meeting was told by Mr Francisco Ramos-Galino, Hon-lea's narcotics director, that ethnic Chinese Triad gangs, not the Mafia, now controlled the world's drug trade.

casting an annual rise of 11-12 Peking's crackdown coincides with news of China's first ment to postpone spending on public works and tighten credit in the private sector. Aids death, identified only as a Yunan man who contracted

\$600m in arrears owed by Algeria to foreign companies

and strengthen hard currency

reserves which currently

amount to \$455m and are expected to rise to \$900m by

the year-end. Gold worth \$2bm

at current market prices is not included in this figure.

The longer term aim of the

# Mahathir's foes take poll loss badly

By Roger Matthews, Asia Editor

THE convincing victory achieved in the Malaysian gen-eral election on Sunday by the National Front coalition headed by Dr Mahathir Mohamad, the prime minister, appears unlikely to herald a period of reconciliation among the politically dominant Malay

community.
Tengku Razaleigh Hamzah, a
former cabinet colleague of Dr
Mahathir who headed the electoral challenge to the prime minister, said yesterday that he congratulated the National Front on its victory. He added: "I wish to recall that this victory has been achieved through the abuse of power, money, the media, government machinery, and by whatever deceit was possible."

The bitterness of Tengku

Razaleigh's concession statement reflected that of the elec-

tion campaign and raises fears that despite winning 127 of the 180 parliamentary seats, more than the two-thirds majority needed to amend the constitu-tion if desired, there may be difficult days ahead for the National Front

Attention will particularly focus on Tengku Razaleigh's home state of Kelanian, in the Malay heartland, where the opposition took every seat in the local legislature.

The opposition victory gives effective control of the state to the Parti Islam which is now likely to adopt a more funda-mentalist stance and seek to use its new power to advance Islam throughout the country. The main Chinese opposition

group, the Democratic Action Party, which was also allied to Tengku Razaleigh, narrowly failed in its ambition to win

the island state of Penang. Dr Mahathir could now decide to use his victory to reconcile the Malay community, for whom consensus had been a political way of life until the challenge to the prime minister's leader-ship of the United Malays National Organisation was

launched at the party elections in April 1987. But Dr Mahathir's angry response to that challenge suggests that he will use his election victory to consolidate his power base, and in particular his power to nominate the man

who will succeed him. It is suggested that Dr Mahathir, having suffered a heart attack and bypass surgery last year, will decide to step down within the next two to three years, allowing a suctor three years, allowing a suctor three years, allowing a suctor of the property of the state of the stat cessor time to assert authority before the next election.

### Nairobi breaks off relations with Norway

By Michael Holman in Nalrobi

KENYA announced yesterday it was breaking off diplomatic relations with Norway. A for-eign ministry statement accused the Oslo of supporting one of President Daniel arap Mol's prominent opponents, Mr Koigi wa Wamwere, a former MP arrested in Nairobi last week and now facing treason charges.

A Norwegian foreign minis-try official said Nairobi had been asked to reconsider its action. However the row may lead to further cuts, in Norway's \$20m aid programme for next year. It has already been cut by 20 per cent as an expres-sion of Oslo's concern about human rights.

The row seems certain to prompt further concern among western governments about Mr Moi's handling of critics calling for an end to the country's one-party political system. Nor-way and the US have begun to link aid commitments to Kenya's human rights record. a policy Mr Moi has called "blackmail".

The authorities say Kenya's record is far better than most other African countries, which

do not come under the same Western scrutiny.

The diplomatic break was presaged by a hitter attack on Norway by Mr Moi, charging Oalo with complicity in treason. Mr Wanwere won a reputa-

tion as a forthright govern-ment critic as an MP and went into self-imposed exile in Norway in 1986. He was arrested in Nairobi last week, together with two local lawyers, having clandestinely returned according to the police who said they had discovered arms caches. The president defended the arrest and denied reports Mr Wanwere had been abducted from neighbouring Tanzania. "Why should Norway protest

because we have arrested a criminal who wanted to kill people? It appears what he wanted to do was at the behest of the Norwegian govern-ment", the president was reported as saying.

The Norwegian ambassador protested against the arrest, demanded Mr wa Were be given access to his lawyers, and said Norway had reported the case to the United Nations. 1991.

### Mozambique makes way for market

MOZAMBIQUE'S parliament yesterday approved a clause in the country's new constitution which recognises private prop-erty and the role of market

forces in the economy.

The decision followed the approval at the weekend of new constitutional articles committing the previously Marxist state to political pluralism after 15 years of one party rule.

Both are long-standing demands of the rebel National Resistance Movement (Renamo), which the Frelimo government has been battling for 13 years in a civil war which has cost 600,000 lives.

The new economic order will be based on "appreciation of labour, market forces, initia-tive of economic agents, participation of all types of owner-ship and action by the state as a regulator and promoter of economic and social growth and development.

A law on political parties is to be drawn up before the end of this year and the first multi-party elections are due in

# Algeria to offer collateral for foreign bank loans

By Stephen Fidler and Francis Ghilès

and rising oll prices. South Korea imports all its oil, which by a real 8.8 per cent. Last

THE ALGERIAN authorities are to press ahead with a pro-gramme under which they will provide collateral to encourage international banks to grant the country new loans.
The programme, underlining

the government's resolve not to reschedule its foreign debt, would involve the use of some borrowings from banks to buy zero-coupon bonds which would guarantee the repayment of principal. Zero-coupon bonds pay no annual interest but their value grows until

The idea, developed by the Paris-based Banque de l'Union Européene, would be for the establishment of they mature. establishment of a special purpose company which would borrow \$2bm (£1bn) or more. Roughly half would be lent to

Algeria and the other half used to buy either zero-coupon US dollar or French Treasury bonds which would guarantee repayment to the banks after

A number of possible options have been outlined, including some in which interest payments to banks in years nine and 10 would also be guaran-

Because the special purpose company would not be an Algerian borrower, it is hoped that banks will be less unwilling to lend. They would not have to make provisions on their loans and their only risk would be the annual interest payments. While financing the collateral would increase the Algerians' borrowing costs, BUE argues these increases would

be relatively modest over a 10-year period. If the idea worked, such operations could be carried out annually.
The expectation is that Banque Nationale de Paris and Crédit Lyonnais would arrange

such an issue. Meanwhile, the Algerian government remains deter-mined to avoid rescheduling. For Mr Ghazi Hidouci, minister of finance, and Mr Abderrahmane Hadj Nacer, the central bank governor, the broader problem is not so much the size of the debt burden -\$25.3bn at the end of last year

rity schedule.

Of the total, 70 per cent matures before the end of 1993. They remain determined to avoid rescheduling not least

- but its unfavourable matu-

because such a move would close Algerian access to the international capital markets for a long time.
Their determination is comforted by the doubling in oil

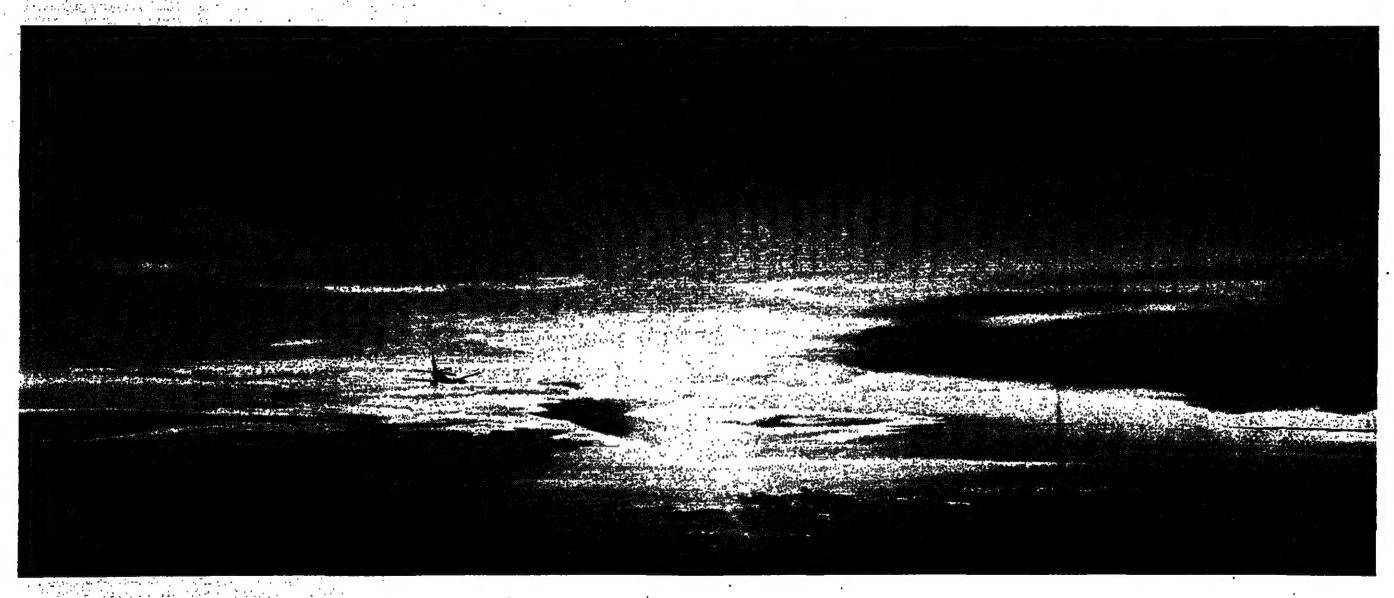
prices since the start of the Gulf crisis. Senior Algerians expect the increase will earn the country's state oil and gas monopoly, Sonatrach, about \$1.5bn more than expected, thus bringing total foreign earnings for 1990 to \$11.5bn. Some international bankers who follow Algeria argue that these figures are too conservative. Whatever the exact figure of the windfall, Algeria's antic-ipated current account deficit has been turned into a surplus of at least \$500m.

imports. Meanwhile, measures aimed at liberalising the economy continue with a number of joint ventures expected to be The revenue windfall will be signed during the next few used to repay an estimated

central bank is to hold hard currency reserves worth around \$2.5bn, that is the equivalent of three months of imports.
The third priority will be to boost economic growth through a limited increase in

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### **AMERICAN NEWS**

# Bush poised to overrule key minority rights bill

PRESIDENT George Bush was last night poised to veto a key civil rights bill, a move certa to hurt his efforts to woo black voters to the Republican cause. The veto threat follows months of White House negotiations with Congress and arguments among Mr Bush's top advisers over the bill, the legis-lative priority for black leaders

The bill aims to overturn or modify five Supreme Court decisions which, critics argue, would weaken the rights of minorities and women in dis-

crimination cases.

Having pressured Mr Bush on the issue of taxing the rich, the Democrat majority in Congress is now intent on casting him as a president insensitive to minorities. Republicans, meanwhile, are urging Mr Bush to be decisive,

even if it means upsetting The president is caught in the middle. He has worked hard to bury memories of Mr

indifference towards minorities



Bush: increased black vote - so hard that his approval rating among blacks jumped above 70 per cent, according to polls earlier this year. Mr Bush said the bill passed

by the House and Senate last week would make it too easy for plaintiffs to prove discrimination. He argued that employ-

ers would probably hire minorities and women to avoid legal action, even if they were not properly qualified. The bill set down "quotas", he said

The House and Senate do not have the two-thirds majority votes required to overturn a presidential veto, so the bill seems certain to die. Some observers believe Mr Bush would have signed the bill if the budget fiasco had not inter-

This is by no means certain. Recent polls suggest deep resentment among low-income white voters who believe blacks and other minorities are receiving preferential treat-ment and are abusing the wel-fare system. Republicans could tap this profitably in next month's mid-term elections.

In the background, is the in the background, is the newly emerging debate about the civil rights/Great Society legislation of the 1960s which may have helped some blacks improve their lot — but which have singularly failed to help the underclass.

# The rich are different – they pay less tax

based on equality of opportunity rather than equality of outcome.

The current Democratic

"fairness" campaign and effort to increase taxes on the rich in the budget package does not represent the start of a class war. Most Americans are quite content to tolerate millionaires provided they pay their fair share of taxes. There is no dispute that

inequality increased substan-tially during the 1980s. This was a result both of spe-cific Reagan administration tax cuts favouring the rich and of a debt-driven boom in asset It was a climate in which it

was socially and politically acceptable to be ostentatiously wealthy. The share of national income

received by the top 1 per cent of the US population rose from 8 to 15 per cent between the late-1970s to the late 1980s. Their share of the overall income tax burden rose from 18 to 27 per cent during the

Internal Revenue Service fig-ures show that the number of tion has been eagerly seized upon by the Democrats looking

But making the wealthy fork out their 'fair share' will have little effect on the budget deficit, reports Peter Riddell from Washington

tax returns from those with gross annual incomes of more than \$1m jumped from 15,000 in 1984 to 65,000 in 1988.

The number of returns showing incomes of between \$500,000 and \$1m rose from 29,000 to 119,000 over the same

A controversy has raged in recent months by political analyst Kevin Phillips' book – The Politics of Rich and Poor. He points to two earlier instances in American history when heydays for both the wealthy and the Republicans, in the 1880s and the 1920s, have

downturns and marked swings in the direction of populism and progressivism.
His argument that the time is ripe for similar transforma-

been followed by economic

for a popular, unifying theme. The increase in income dis-parities and stories of tax evasion by the wealthy have underpinned support in the polls for raising taxes on the

But this has been less a

burst of egalitarianism than a call from those with middle incomes, whose take-home pay has been squeezed, for a fair contribution from the wealthy. A new Washington Post/ABC News poll points to an admira-tion and respect for the wealthy among 55 per cent of those interviewed.

Some 58 per cent want to be

rich themselves and 27 per cent think they will be rich one The wealthy are seen by the

majority as more likely to be well-educated, intelligent and physically attractive, though

Norther - And SSO(300 s C) million 80 60 2.83

also more likely to be racists and snobs. Two-thirds think the rich are less likely to be

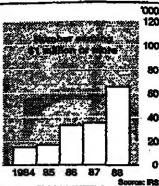
1984 85 86 87 88

US high earners

There are contradictory strands in the poll - including the combination of a belief that people ought to have the chance to become rich with ambivalent feelings towards

those who do.

Although the rich may be an attractive target, in budgetary terms they are an almost marginal one



on those earning more than \$1m a year suggested in the House budget plan would raise only \$7.5hn over five years,

just 1½ per cent of the total deficit reduction package. Extending a 33 per cent income tax rate to all higher income taxpayers would raise \$50bn over the period.

Even if the wealthy contrib-ute their "fair" share through various higher taxes, the main burden of deficit reduction will inevitably fall on the vast majority of wage earners.

# Congress agrees new targets for environmental legislation

NEW RULES and targets for reducing damage to the envi-ronment caused by acid rain have been agreed by congres-sional negotiators, removing one of the last obstacles to finone of the last obstacles to finalising the most far-reaching clean air legislation since the

Agreements have already been reached on auto-emission controls, the use of alternative fuels and airborne toxic industrial chemicals.

The last remaining problem concerns proposals, approved by the House but narrowly rejected by the Senate, which would provide \$250m over five years in additional unemployment benefits for workers such as coal miners who lose their jobs because of the legislation. This provision is strongly opposed by the White House. On acid rain, a series of com-

deal with the concerns of legis-lators from mid-western states which will be most affected by the costs of cleaning up dirty coal-fired utilities.

The plan's target is to cut by half power plant emissions of sulphur dioxide, the main com-ponent of acid rain. This involves the use of pollution credits, earned by bettering prescribed pollution limits, and which are saleable to other

utilities seeking to expand.

The negotiators agreed various incentives for scrubbers, which reduce sulphur from plant emissions. Between 1995 and the year 2000, coal-fired utilities in Ohio, Indiana and Illinois would received extra credits worth as much as

This meets some of the concerns of legislators from mid-western and Appalachian states about a hig loss of jobs

in their high sulphur coal min-

The total cost for US industry of implementing the legisla-tion has been estimated at up

Prospects for the legislation revived earlier this month after a compromise on the contentious issue of car emission

stuck in a Senate/House con-ference since late spring, following differences between environmentalists and manufacturing and utility interests.

ing areas.

to \$25bn annually by the year

The legislation had been

However, environmental groups have expressed disap-pointment that the motor industry is not being pushed enough to produce new antipollution technology. By contrast, motor manufacturers have said the package is

### Venezuela to reschedule Nicaragua's oil debt

By Joe Mann in Caracas

VENEZUELA has agreed to stretch over four decades the repayment period for long-overdue Nicaraguan oil debts.

The unusually generous terms tacitly recognise that Car-acas is unlikely to receive significant repayments from Nicara-gua, which is struggling to rebuild its stricken economy. Nicaragua owes Venezuela \$160m (581.2m) in principal for oil shipped under terms of the San José Agreement, a joint accord by Venezuela and Mexico to supply oil to Central American and Caribbean governments

at a discount.

The Venezuelans agreed during a recent visit from President Violeta Barrios de Chamorro of Nicaragua to reschedule payments of \$160m over a 40-year ments of \$15km over a 40-year period, with six years of grace. According to Nicaraguan officials, interest payments will be contingent on Managua's ability to surpass an annual export target of about \$1.4bn.

It was not clear if \$90m in overthe interest would also be

rescheduled or simply forgotten Venezuela only recently rescheduled most of its own external public sector debt with international banks, for a period

of less than 20 years. Last June it began shipping oil to Managua after a gap of several years. However, this is a temporary arrangement as offi cial oil shipments under the San José accord will not start until both Mexico and Venezuela have reached a settlement with the Chamorro government.

Micaragua owes Mexico close to \$1bn for oil. A Nicaraguan official said his

government's total foreign debt was \$11bn, most of which is owed to the Soviet Union and former members of the Eastern Central American and Carib

been countries owe Venezuela about \$900m, for oil supplied under the San José Agreement. These debts have been quoted on secondary markets at only a tiny fraction of their face value.

### Panama claims to have pre-empted coup

THE PANAMA government has claimed to have stopped a rebellion by middle-ranking officers within its police force, following the arrest of two ringleaders over the weekend,

Tim Coone reports.

The Ministry of Government and Justice said the revolt was an "attempt to destabilise President Guillermo Endara's government, but we have ruled out that it was a coup

The ministry said two captains, from an elite auti-terror-

ist unit, were organising a nationalist movement within the 12,000-strong police force and intended to seize several barracks in the provinces of Chiriqui and Colon, the latter at the northern end of the Panama canal

Arrests continued over the weekend, as other suspects were rounded up. Both cap-tains had served in the former Panamanian Defence Forces (PDF), which was dismantled following the US invasion in December last year. The majority of its troops were then recruited into the new police force, which took over public order duties as the US force gradually withdrew. About 10,000 US troops remain based in Panama, however, and are likely to stay there even after the Panama Canal Treaty expires in 1999. Mr Deane Hinton, US ambas-

sador to Panama, reiterated at the weekend that his govern-ment continued to support President Endara's administra-

### Argentine troops unhappy over low pay

CONCERN is rising in Argentina over discontent in the armed forces because of low pay, particularly among right-wing extremists who support retired Colonel Mohammed Ali Seineldin, leader of the military uprising two years ago, writes John Barham in Buenos Aires.

This coincides with a wave of bombings in Buenos Aires, which yesterday saw a bomb exploding outside the British Hospital causing damage but

no injuries. Last week four bombs went off at offices of companies involved in the government's privatisation programme. Nobody claimed responsibility for the attack on the hospital, but a previously unknown group, the Eva Peron Commando, said it placed last ek's bombs.

Vice-president Eduardo Duhalde and Mr Humberto Romero, the defence minister, met yesterday to discuss tak-ing action against Col Seinel-

dence of President Carlos Menem at the weekend, pur-portedly from the colonel, warned of military "protest warned of military protest movements of such gravity that neither you nor I are able to predict. Officials are puz-zled that the letter was sent, since President Menem is on a 10-day European tour. Mr Duhalde has said that, if Col Seineldin wrote the letter, he will be "severely punished" for insubordination.

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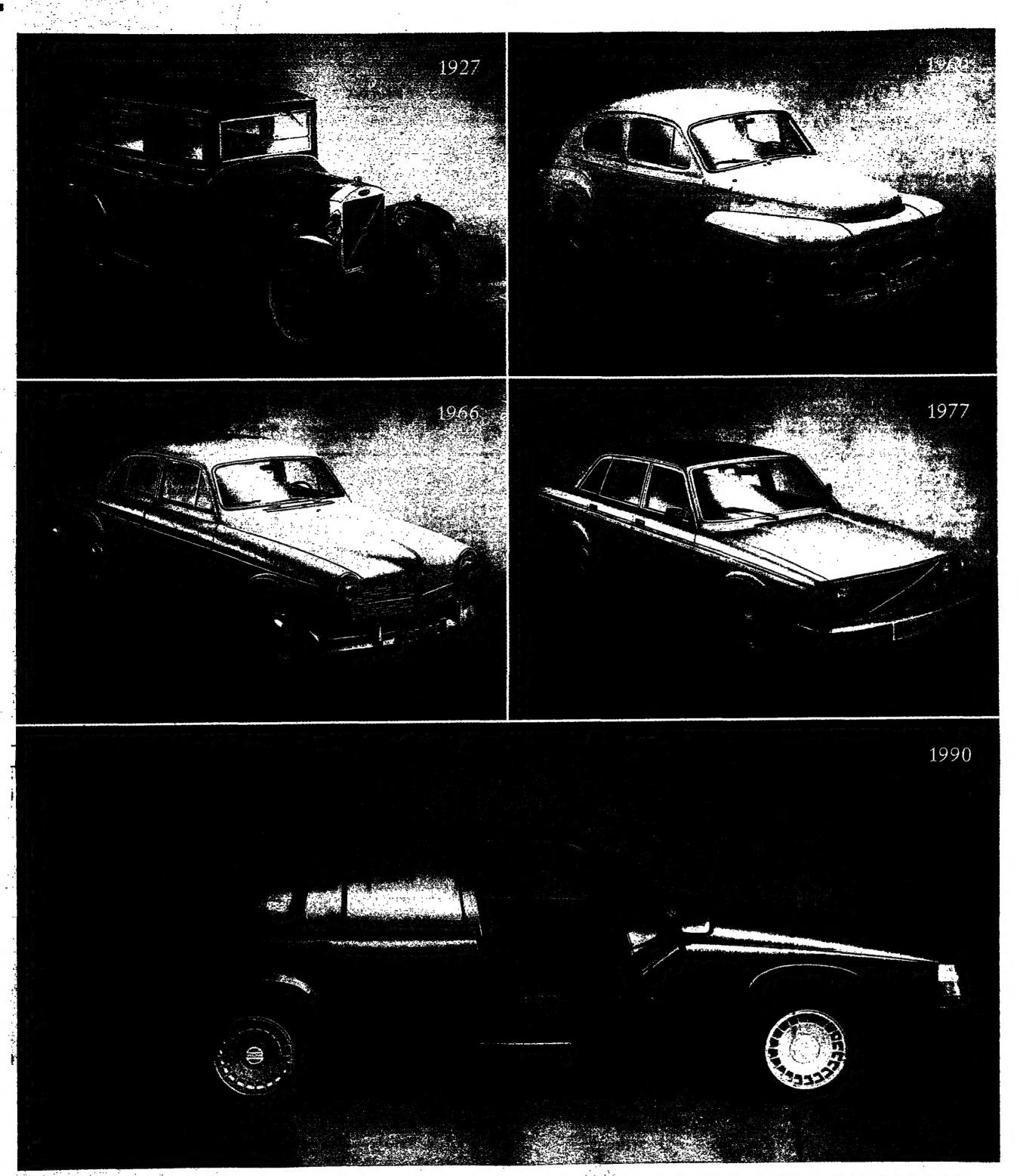
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### **WORLD TRADE NEWS**

# Talks on trade in | VW's humble hunch-back makes a comeback in Mexico services move to decisive phase

By William Dullforce in Geneva

URUGUAY ROUND talks on the liberalisation of the \$600bn (£315bn)-a-year world trade in services moved into a decisive

phase yesterday.

A group of senior negotiators has been given two weeks to try to resolve conflicts over how 10 basic service sectors, ranging from banking to audiovisual programmes, can be incorporated into a new General Agreement on Trade in Services (Gats).

With only six weeks left before trade ministers meet in Brussels to conclude the Round, the conflicts of interest negotiations were displayed in reports to the Group on Negotiions in Services (GNS) yes-

The reports came from working groups of experts who have been trying to determine whether the particular charac-teristics of the 10 sectors could be accommodated into a Gats framework of general princi-

Negotiators acknowledge that the more exceptions allowed from the general prin-ciples, the more the validity of the Gats is undermined and for many countries its attraction

However, in the talks at the experts level, two self-proclaimed champions for the removal of barriers to trade in services - the European Com-munity and Washington have been seeking derogations from the most-favoured-nation (MFN) rule for some sectors

Under the MFN rule, trade benefits negotiated with one country must be granted to all

The EC wants MFN deroga-tions in the civil aviation sector, in maritime transport, in land transport for inland waterways, trucking, rail and buses, and in audiovisual ser-

Washington is holding out for exemptions in civil aviation, international shipping and telecommunications.

Each group of experts was asked to decide whether or not its sector should be accorded special treatment in an annexe

Two draft annexes were presented to the GNS, on tele-

Uruguay Round negotiators have agreed to introduce important revisions to three Gatt codes, covering techni-cal barriers to trade (better known as the standards code), import licensing pro-cedures and customs valua-William Dullforce

reports. To prevent standards being used as a device to protect domestic industries, the amendments sharpen definitions of what constitutes an unnecessary trade barrier and what standards can be considered as legiti-mate. The import licensing are kept better informed and allow them more time to adjust to newly introduced

communications and financial services.

While the telecommunica tions draft has considerable backing and is marred only by the US demand for an MFN exemption, the text on finan-cial services, elaborated by a small group of finance minis-try officials, is highly contro-

Several developing countries, including Brazil and India, yesterday objected to it being taken as a basis for further negotiation.

In the audiovisual sector. concerning principally the sale of cinema, video, radio and television programmes, the European Community has its back to the wall.

Brussels is seeking deroga-tions from the Gats provisions, using a "cultural content" argument to defend its industry against huge imports of US films and television pro-grammes. The conflicting interests of US and EC ship pers have provoked a difficult situation in maritime trans-

exemptions from the general principles, including the right to retain its national dispute settlement rule. The EC is seeking exemptions for the bilateral cargo-sharing agree-ments it has concluded under the UN liner code, of which the US is not a signatory.

The Beetle has proved to be the Mexican people's choice for cheap transport, writes Richard Johns

HE sophisticated version of the VW Beetle being manufactured in Mexico today has come a long way from the prototype designed by Ferdinand Porsche at the behest of the Third Reich in the 1930s.

· Output of Volkswagen's durable little hunch-backed whicle came to a halt in Brazil

Since then, Mexico has been the last production stand, but death for the flourishing Mexican Beetle seems a remote pos-

Like all other cars manufactured in Mexico, new Beetles (old ones are undoubtedly one of the biggest contaminators of the air in the Valley of the Mexico) will be fitted next year with catalytic converters to satisfy the country's belated environmental campaign and to make the Beetle eligible for the US market.

Mr Martin Josephi, president of Volkswagen de Mexico CA de CV, is the first to acknowledge that the Beetle's success in Mexico has laid the foundation for a DM1.5bn (£500m) investment programme over the five years from 1990 to

Output of Beetles to the end of August had risen to 57,592,

compared with 17,813 in the same period of last year, a more than three-fold rise.
In this period it was the best selling model, still sneared at by rival manufacturers for its relative simplicity but perhaps also because because it is by

Overall the increase in production, including combi-vans, recorded by the German company in the first eight months of this year was 83 per cent compared with 17 per cent for the industry as a whole, according to the Mexican Auto-mobile industry Association

The share of the Wolfsburgbased company rose from 18 to 28 per cent - and the Beetle was mainly responsible. in Mexico its name is Sedan.
Popularly, it is known as El
Vochito but probably would
better be known officially now
as El Coche del Pueblo (Tha

People's Car).

Demand has surged in response to an initiative taken in 1989 by President Carlos in 1989 by Freshelt Salinas de Gortari's administration, which challenged the motor industry to produce a vehicle at a cost accessible to people of lesser means.
In exchange for fiscal concessions, exemption from 7 per VW in Mexico Number of cars ('000) Production Exports

cent duty on imported parts and 2 per cent hixnry tax on new cars, VW Mexico is selling Beetles at 15.68m pesos (rather less than \$5,250), one of the cheapest cars available in the

1988

It was, therefore, entirely appropriate that Mr Salinas agreed to take delivery this month of the one millionth Beetle produced by VW of Mexico since output began 25 years ago and the second millionth vehicle, a Golf — both of which are to be raffled for

charity. VW switched North Amerialmost wholly reserved for can output of Golfs from a Mexicans — with a two-to-

plant in Pennsylvania to Mexico two years ago and now produces the Jetta too. Both are main export models for

1990\*

or the Salinas adminis-tration, the investment pean (rather than North American) multinational is politically important within the context of its negotiations on a free trade agreement with Mexico's powerful northern

Though the Beetle is now

three-months waiting list for new cars - VW is one of the country's major exporters.

It ranked fifth in 1989 in a survey by the business magazine Expansion, behind General Motors and Ford, but with a far bigger increase in value terms of 104 per cent, compared with 17 per cent and 19 per cent for its US competitors

Statistics published by the the Mexican Industrial Auto-mobile Association (AMIA) show exports of units by VW to have rather more than dou-

Its performance in a rapidly expanding domestic market compares with percentage increases of 27 per cent by General Motors and 2 per cent by Ford (whose export-orien-tated Tracer-producing Hermis-illo plant was closed down for retooling until mid-April). Nissan's performance declined by 17 per cent and Chrysler by 2

Mr Josephi says that VW's overall exports this year should reach \$800m out of a total of \$2hn.

About half will be accounted for by North America and most of the rest by Europe, with Brazil also a significant cus-

Expanding sales abroad of engines, axles and other spare parts will account for a significant part of the total, hir Josephi says, stressing that the Mexican affiliate is very much in competition with those in Europe and still enjoys the

advantage of chesper labour. But training is an area in which Volkswagen de Mexico clearly feels it excels, putting high-school trainees (leaving age 16) through three-year

Mr Josephi clearly believes in the reciprocal benefits which would be provided by a free trade agreement with the US or a tribateral one with Can-

VW's DM1.5bn investment commitment, aimed largely at raising capacity from 220,000 to 300,000 vehicles annually but also modernising the plant and improving models, should alleviate some of Mexico's fears that it will lose out in the wake of German reunification and the lure of the eastern Euro-

Beetles now account for nearly two-thirds of VW car output at the Puebla plant. Who knows, they could soon be finding their way to Warsaw and Budapest.

### US chip market growing in Japan Hopes fade of end to EC farm impasse

By Robert Thomson in Tokyo

HOPES were fading last night that Ruropean Community Foreign Ministers would be able to break the EC impasse on farm reform, Tim Dickson

on farm reform, 71m Dickson reports from Brussels.
Foreign Ministers of the 12 had been asked to discuss Brussels' proposal for a 30 per cent cut in supports, after EC farm ministers failed to reach agreement. Yesterday, the main aim of Mr Gianni de Michaelis, current president of the EC Council of Ministers, seemed to avoid formal talks on the issue at next weekend's special Rome summit.

Officials fear a clash

between Mrs Thatcher, UK prime minister, and Mr Hel-mut Kohl, German Chancellor, Washington wants a series of who has intervened to back Mr Ignaz Kiechle, his farm minister. Detailed talks on the Comter. Detailed tails on the com-mission's 30 per cent proposal, its offer for the Uruguay Round's final stages, was not contemplated yesterday. But some believe the ministers may try again next week. FOR the past two years, Mr David Metz has argued the

case for US semiconductors in Tokyo, and, with a certain sat-isfaction, he notes there are now fewer disputes and more US chips in Japan. "There were Japanese companies that would not use alien chips. Japanese industry has

now recognised there is a US-Japan semiconductor agreement, and that they have a stake in maintaining fair international trade," says Mr Metz, executive director of the Semiconductor Industry Association office in Japan.
But the US-Japan semiconductor pact, signed in 1986, remains one of the most sensi-

tive bilateral trade issues, and Japanese companies have been irritated by recent US propos-als to fashion a new agreement when the present pact expires next July. The present agree-ment calls for a 20 per cent market share for foreign chips by July, but it is expected that

the figure will be closer to 16 future. But he is also conper cent. US companies, and Mr Metz, are prepared to give Japan more time to reach the 20 per cent level as the first target in the next five-year

"Frankly, I think Japan needs another chip agreement. For something like this to work in Japan, you really have to have specific targets. I think this has been shown," Mr Metz said. His first stint in Japan was from 1972 as local head of semiconductor business for Motorola, and he will return to the US to work for that company. In the early days, "there were no arguments about market access, there were just import berriers".

His stint in Japan has aroused his interest in industrial policy, and he admires the foresight of some Japanese pol-iticians and the Ministry of International Trade and Industry in targeting semiconduc-tors as a key industry of the

vinced US semiconductor makers have a reasonably bright future: "I am optimistic there will be a US semiconductor industry. US companies are delivering good quality chips on time in Japan. They have shown they can do the job." His stay has convinced him that stories about Japanese

lacking in creativity are unfounded. A "fringe" of younger Japanese were now developing software pro-grammes challenging the US product "It used to be said the Japa-

nese could have the hardware market because they were better suited to developing it, but the US would always have the software. You must have both," Mr Metz said. He thinks he is lucky to have been in Japan when market share for foreign chips is expanding. Foreign groups needed to be involved in Japan, to keep up with technological innovation.

### **Deutsche Bundespost chooses** digital equipment suppliers

By Robert Taylor in Stockholm

DEUTSCHE Bundespost Telekom bas chosen the Flexnode consortium as one of its three suppliers of digital transmission equipment for Ger-many's telecommunications it was announced yesterday.

Ericsson, the Swedish tele-communications equipment company, is part of the consor-tium, along with DeTeWe of Berlin and Fuba Communication, part of the German com-pany Hans Kolbe.

The other two suppliers are to be Slemens and the French company Alcatel.

The value of the order has not been announced yet, but further details on the order will be released next month. However, it is believed it could amount to between SKr10bn

(2925m)-SKr15bn. The order from Deutsche son follows on from the com-

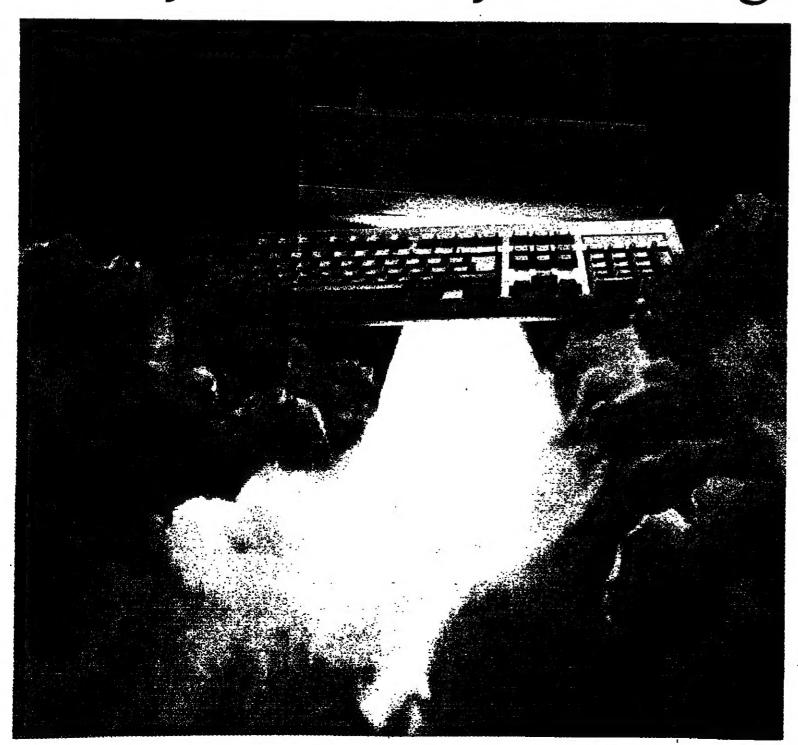
pany's earlier breakthrough into the lucrative and expanding German telecommunica-tions market this May when it won a DM350m order in alliance with Siemens to install the largest wide-area cellular telecommunications network in Europe.

The products supplied are digital cross-connect (DCC) systems and associated com-

Yesterday, Ericsson said the new equipment would enable Deutsche Bundespost Telekom to provide digital leased-line services on demand directly to business customers. The DCCs also improve the use of trans-mission capacity within the public telecommunications net-

work. Test installations will start next year with commercial services due to begin by the middle of 1992.

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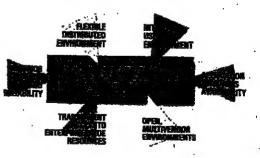
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# Post Office claim | GKN looks | Labour consummates marriage to Europe improvements to delivery times

By Paul Abrahams

THE POST OFFICE yesterday said it had made the best improvement yet in the delivery of first-class mail.
It said that between April

and September this year, 85 per cent of first-class letters were delivered the following day – its target - by either first or second post. This compared with 77 per cent in the same period last year. Sir Bryan Nicholson, chair-

man of the Post Office, said the results meant service levels were "far better than ever before", although he admitted more work needed to be done. He said that an independent survey of national delivery rates showed that the percentage of first-class mail arriving on target was 92.2 per cent in local areas (88.4 per cent last year); 86.3 per cent in adjacent

areas (78.5 per cent); and 78.1 per cent of long distance mail (65.4 per cent). The survey was commissioned from a research company by the Post Office and endorsed by POUNC, the industry's watchdog. However, its findings were challenged yesterday by the Forum of Private Business,

which represents 17,500 small businesses. Its own survey claimed that only 30 per cent of mail arrived the next working day and that 7 per cent took

day and that 7 per cent took three working days.

The FPB study was accused of being a "Mickey Mouse survey" by Sir Bryan. "The FPB survey was made up of only 574 postcards," he said. "Our survey, conducted independently on an agreed methodology with our watchdog, involves a quarter of a million letters. I cannot allow my management strategy to be ruled agement strategy to be ruled by a sample of 574 letters." The FPB said its survey was the first it had conducted and would be repeated every six months. It called for the break up of the letter monopoly. "If the Royal Mail cannot provide a first-class service, it should step aside and give someone else a chance," said Mr Stan Mendham, founder of FPB. Sir Bryan said the "very good value" second-class deliv-

ery service ensured 96 per cent of the letters handled – just over half the total of 60m letters posted every day – reached their destination

within the three-day target.

# at project in Germany

By John Griffiths

GKN, the motor components, industrial services and defence group, is expected to decide before 1991 whether to proceed with a project to produce car driveshafts in east Germany. If the go-ahead is given, GKN will use a plant at Mosel, near Zwickau, previously set up to supply driveshafts for the outmoded East German Trabant car, to make constant velocity driveshafts for the facility that Volkswagen is set-ting up — also at Mosel — to produce 250,000 Golf and Polo

cars a year from 1994.

The new VW plant is close to the existing Trabant factory and will involve capital investment of about DM3bn (£1bn), including the construction of metal stamping facilities, body-shell assembly, paint shop and final assembly

operations.

GKN had considered undertaking the Mosel driveshafts facility on a joint venture basis, but is now expected to fund the project itself on the hasis of long-term, secure contracts from Volkswagen.

The UK correspondents contracts nts group, which has II driveshaft-mak-ing facilities around the world. derives about three-quarters of its annual automotive turnover - or some £900m a year

from driveline components.

AR from love at first sight, the gradual seduc-tion by Brussels of

Britain's opposition Labour Party has seemed at times more a marriage of convenience, firmly based on the old adage that 'my enemy's enemy is my friend'.

Nor is today's Commons debate on Britain's entry into the Exchange Rate Mechanism (ERM) likely to shed much more light on the true extent of Labour's conversion to things European. But while some anti-EC

Labour politicians will suffer a touch of political indigestion at bearing their shadow chancel-lor claim the ERM as his own, others will be straining for hints from the party leadership as to how it may try to keep a step ahead of the government without exposing rifts in its own ranks.

So far, Labour has had considerable success in selling itself as both united and constructive on the EC. But the image building owes as much to stealth as to conviction. When Mr Chris Smith, a Labour Treasury spokesman, hinted in a television interview last week, that a new step towards the European mainstream on monetary union was now being contemplated, party officials leapt to fill the security breach with conditions and reservations.



The same of the same of Bound for Europe: Kinnock appeals for party backing

In part this is for historical reasons. The party's conver-sion from outright opposition to the EC to the now official "cautious but constructive" positivism owes as much to dislike of Mrs Thatcher as to affection for Mr Jacques

There are few major milestones to chart the course of what has been Labour's greatest U-turn since the abandonment of unilateralism But when the TUC's decision

to invite the EC Commission president to its 1988 conference was followed a fortnight later by the prime minister's Bruges denunciation of a "European superstate", even the sceptics could see advantages in taking the parliamentary battle to the the continent.

Labour, meanwhile, retains the advantages of opposition. While the government must agree a stance for the Inter-Governmental Conference in Rome in December, Mr Kinnock needs merely to agree a nebulous form of words with his partners in the Confedera-tion of European Socialist Parties on the conditions for further economic convergence.
With the vast bulk of the

party still agnostic on the issue, continued hostility from the prime minister could prove just sufficient a gine to keep Labour united.
That was confirmed last year when the European parliamen-tary elections saw an upbest

Lary elections saw an upbeat
Labour campaign impose the
party's first substantial defeat
of the government in a decade.
Since then, however,
Labour's march towards a
democratic socialist Furnical democratic socialist Europe has been impeded by the prob-lems of keeping the party in step.
Today, attitudes to the key

issues, monetary and political union and a European Central Bank, cut right across the tra-ditional left-right battlelines. The official party position insists that continued economic integration is "inevita-

But it goes on to insist that full monetary union and a single currency can only come after greater convergence between the UK economy and those of its partners.

On a European Central Bank, Labour insists that this can only take place when polit-ical accountability is in force

and the bank's statutes establish a firm commitment from its directors to adopt regional,

social and growth policies.

For longstanding antimarketeers party agreement on ERM entry was already a step too far. Mr Peter Shore, a prominent member of the anti-EC Safeguards Committee, objects atrongly that the issue had never been properly debated within the party.

"I am uncertain whether it

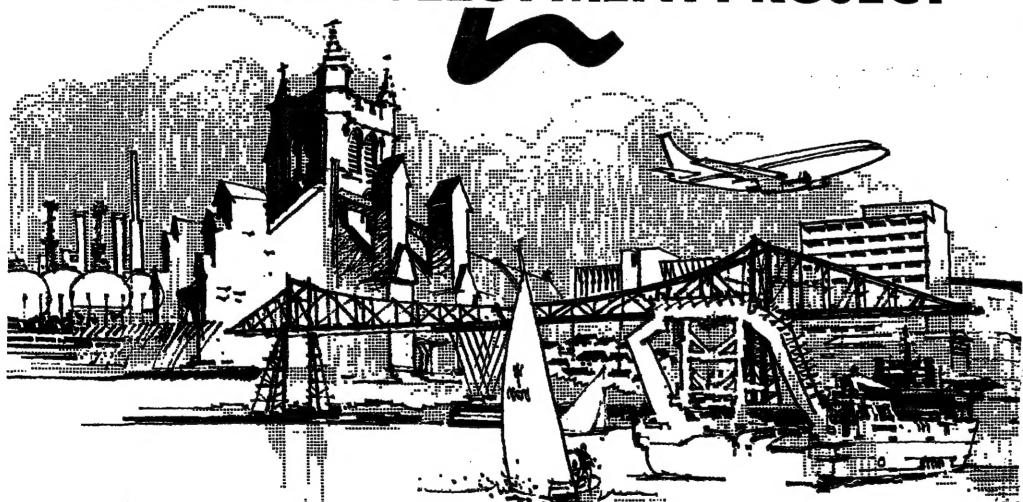
"I am uncertain whether it [ERM entry] is due to pro-EC posturing or us is a more serious failing to understand the questions and implications of EMU or a single-European currency," he insists, adding that sovereignty issues are still not understood by the rank and file

On the other hand, some on the left such as Mr Brian Sedgemore, a Campaign Group member now firmly committed

member now firmly committed to further EC integration, argue that only by means of a single currency can a socialist Europe defend itself from the swings floating currencies suffer at the hands speculative investment.

There is an element of truth about the prime minister's comments about socialism through the backdoor," he said yesterday. "With a single currency you wipe the currency market out and with a strong regional policy you have some thing more akin to socialism."

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### BRITAIN IN BRIEF



### Banks to loan £2.1bn for tunnel

International banks are expected to sign new £2.1bm loans agreement with Eurotunnel, the Anglo French Channel tunnel group, in London and Paris on Thursday.
The cash is needed to complete the project which has risen in cost from an

original estimate of £4.8km to more than £7.5km. ment with the banks, Agree some of which initially were refinancing, will trigger a £530m rights issue. The prospectus for the issue is due to be published in the first

### BA to raise domestic fares

half of November.

British Airways domestic fares are set to rise by 5 per cent from next month because of the Gulf crisis.

BA has applied to the Civil Aviation Authority for permission to introduce the increase on November 12. The airline plans to seek an increase in international fares at a later date.

The domestic rise, if granted

will mean the cost of a BA one-way super shuttle executive ticket from London to Edinburgh or Glasgow rising to £97.

### Stakes of integration

Countries such as Britain with a labour market model which falls between corporatism and full deregulation have the most to gain from integration with other economies within the Single European Market, according to a study.

The study of labour n in Europe by the in Europe by the macroeconomic policy group of the Centre for European Policy Studies, suggests corporatist countries such as Norway and Sweden, or deregulated countries such as the United States, gain less from additional trade commetition than European competition than Europes countries "in the interior

middle ground".

The study comes amid debate over whether Britain's entry to the Exchange Rate Mechanism will moderate wages rather than force higher

### Insurance pool for aviation

Nine British insurance companies are pooling their resources to create one of the world's largest aviation underwriting operations. The joint venture, called British Aviation insurance

Group (BAIG), will be based at the Institute of London Underwriters Building. It has a projected premium income of more than £115m this year and will start underwriting risks from January 1 next year.

### EC scrutinises Irish claims

The EC Court of Auditors is reported to be investigating "very serious irregularities" surrounding the way in which some Irish food producers have claimed refunds under the EC's system of export

A preliminary auditors' report alleges that in some cases cheese, and other dairy products, were found to be contaminated with insects and

dangerous micro-organisims.
Even though the shipments
of these products were
rejected, the hish producers
concerned still claimed EC export refunds, says the

### Arson bureau established

The Home Secretary Mr David Waddington will be writing to the Association of British Insurers to finalise ents for a new **National Arson Prevention** 



David Waddington

The government is to fund the bureau's annual budget of between £140,000 - £150,000 jointly with insurers.

The new organisation is expected to be formally constituted early next year. Its priority would be to improve the ability of firefighters to identify arson fires at an early stage. Losses due to arson fires are estimated at a film a day

### Call for elected city mayors

by the ABL

Mr Michael Heseltine, the architect of Britain's present urban development policies, wants directly elected mayors along the lines of the US, to solve the country's continuous in the cities.

Mr Heseltine believes that running Britain's cities has to be "incentivised". He wants elected mayors or city bo to bargain for funds directly with Whitehall and government ministers.

### No loans for violators urged

The European Bank for Reconstruction and Development (EBRD) must freeze loans to government and companies that fail to meet environmental standards according to a World Wildlife Fund for Nature report. It was one of 19

recommendations to ensure that the bank fulfils its mandate to promote environmentally sound private sector growth in central and eastern Europe. It said the bank should help governmen in the region to put environmental legislation in place and penalise them if they are slow to do so.

FINANCIAL TIMES TUESDAY OCTOBER 23 1990

# Kevlar\* and Nomex\*: Helping to increase motor racing safety.

it's quite normal for Formula One racing cars and even rally cars to reach 200 km/h and sometimes well over 300 km/h. Clearly, the smallest technical defect or driver error at such speeds can have serious consequences, which makes driver protection and

n burear

ished

for elected

Racing drivers know this. They wear helmets reinforced with KEVLAR and protective overalls made from flame resistant NOMEX 址

Such precautions have already saved many a driver's life. Press reports suggest, for example, that this is the case with former ... world champion driver Niki Lauda, as well as Nelson Piquet and Gerhard Berger. Names III - The superior fizue-

resistant fermulation In motor racing, spectacular accidents are, unfortunately, all too frequent. And if a carcatches file, a few seconds can make the difference between life and death. A protective garment made from NOMEX III can save a life in this sudden, critical situation. This heat- and flame-resistant fabric provides protection against fire for an exceptionally long period.

NOMEX III is a blend of NOMEX metaaramid and KEVLAR para-aramid developed by Du Pont, it has proven advantages over other heat- and flame-resistant textiles. This is mainly because the woven material does not break open even when exposed to flame, so that the skin is not directly exposed to

the fire. Du Pont has subjected NOMEX III to numerous tests which confirm its exceptional protective properties. A special manikin developed by Du Pont, known as the "Thermo-man", is one of these. It is 1.85 metres tall and has 122 sensors distributed over its entire surface to register. temperature, quantifying pain thresholds and the critical point when burns first occur. The results have provided invaluable information for the development of safer protective clothing.



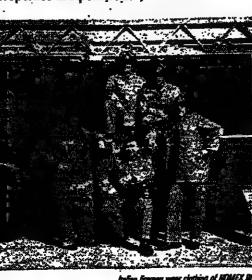
Critical protective ciething applications.

Firemen, policemen and industrial workers can all find themselves in potentially dangerous situations. Garments of



NOMEX III can be developed to provide the degree of protection required for different risk situations. And with a special advantage: material made from this patented fibre blend is as much as 40% lighter than flame-retardant cotton for the same protective performance. In addition, NOMEX III is resistant to most chemicals and does not melt.

What's more, a protective garment made from NOMEX III is a good investment for another reason - its protective properties are permanent, even after



long periods of wear and repeated washing. It will last about six times as long as a garment of flame-retardant cotton.

This is why public authorities and organisations are relying increasingly on clothing made from NOMEX IIL In the U.K. the majority of professional firemen are equipped with NOMEX III. So are an increasing number in Germany. In Italy, all 25,000 members of the national fire service are equipped with protective garments made from NOMEX III.

World rally champion with Koviar. KEVLAR makes many contributions to the increased safety of motor racing. For example, it is used to reinforce helmets, car body components and tyres. A burst tyre at high speed is a nightmare

for any driver. Hours of driving combined with repeated heavy braking subject tyres to exceptionally heavy loads. Leading tyre manufacturers have therefore adopted KEVLAR to reinforce their high-speed and other speciality tyres. Tyres reinforced with KEVLAR have numerous advantages: they are lighter, develop less heat and withstand greater

Michelin, Pirelli and Dunlop have been

And it retains all its useful properties from -40°C to +180°C.

magnetic and electrically non-conductive.

proof, heat resistant, self-extinguishing, non-

Du Pont is now once again setting standards in fibre technology with the KEVLAR "Hx" Series, which achieves significant performance improvements for specific applications. KEVLAR "Ht" has, for example, higher tensile strength; KEVLAR "Hm" a higher modulus of elasticity; and KEVLAR "Ha" reater agnesion. Kevlak "HC" is availadie in other colours as well as the original yellow, while KEVLAR "Hp" is ideal for optimising performance of sports equip-



Groupe C - Worldcups 1987 and 1988 for Jagua

lanovative tachnology means

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championships in the past ten years as well

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The average motorist also benefits from

Championships were won on tyres reinforced

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### UK NEWS

# Strong pound threatens to MoD points Chink of light in siege mentality cut UK competitiveness

BRITAIN'S exporters may be moving into a period of reduced competitiveness as a result of the strong pound, the Confederation of British Indus try said yesterday.
The CBI, the employers'

The CBI, the employers' organisation — which represents many of the country's biggest exporters — said there were "clouds on the horizon" for many of these companies, in spite of yesterday's trade figures, which showed that exports in September held up well compared with August. Exports last month totalled a seasonally adjusted \$8.8bn. up

seasonally adjusted £8.8bn, up 2.5 per cent on August's £8.6bn. In combination with a 1,5 per cent decline in imports between the two months, the high export figure narrowed Britain's current account deficit for September to £850m, the lowest monthly total since

December last year.
Sterling's high value in recent months has increased value of Britain's exports but has harmed the competi-tiveness of many British companies compared with overseas rivals. That trend has begun to show up in figures for the volume, rather than the value, of goods sold overseas.

On a seasonally adjusted basis — and excluding oil and high-priced items such as aircraft - export volumes fell by 1 per cent in the three months

CURRENT ACCOUNT (£bn)											
	Current Balance	Belance	Invisibles Balance								
1968	-15.2	-21.1	80.8	101.9	+ 5.9						
1989	-19.1	-23.6	92.8	116.6	+4.7						
1990											
Qtr 1	-4.6	-5.0	25.4	31.2	. +1.2						
Otr 2	-5.1	-5.2	26.1	31.3	+0.1						
Obr 3	-3.8	-3.5	25.6	29.4	0.0						
Jun	-1.6	-1.6	8.6	10.2	0.0						
Jul	-1.8	-1.8	8.3	10.0	0.0						
Aug	-1.2	-1.2	8.6	9.8	0.0						
Sep	-0.8	-0.8	8.8	9.6	0.0						

the previous quarter. The vol-ume figure for the past three months was, however, up 8 per cent on 1989 figures. According to Mr Sudhir Jun-ankar, head of economic trends

at the CBI, some UK compa-nies are switching resources to export markets in response to the depressed conditions of the domestic economy. This has been true for sectors such as cars, consumer goods and chemicals, all of which have pushed up exports in the past three months compared with the position a year ago.

in the longer term, however, many analysts doubt the degree to which such businesses can continue increasing exports while the pound is ed to what many believe is high central rate within the European exchange rate mechanism of DM2.95.

Mr Avinash Persaud, an economist at UBS Phillips & Drew, said that a snapshot view of exports over the past month gave a flattering view of the underlying forces in the UK economy. "The (exports) position could easily worsen by this time next year," he said. THE UK economy is in the middle of a recession in growth, according to the indicators which chart movements over the business cycle. The Central Statistical Office said that all its four indices of cyclical movements had been declining for some time. The indicators are now

ary trend and are consequently being taken more seriously by nomists. They were ignored in the past for erratic and mis-leading signals. Lex, Page 22

### Travel group plans joint venture with Japanese leisure concern

By David Churchill, Leisure industries Correspondent

THOMAS Cook, the UK travel group which is part of Midland Bank, yesterday agreed to a joint venture with the Japa-nese leisure conglomerate Sainess lessing congenierate sar-son Group to set up a chain of travel agencies in Japan. The agreement could see at least 53 Saison Thomas Cook

offices being opened up in Salson's department stores

Mr Peter Middleton, Thomas Cook's chief executive, declined yesterday to disclose the cost of the investment. He said that Thomas Cook might increase its minority stake in the venture as it developed.

Mr Middleton said the joint

venture was "part of our strat-egy of developing a global net-work of travel operations". The company has been escarching the Japanese market for the past 15 months and has been in negotiations with

Saison for the post six.

One problem was Saison's joint ownership of the Inter-Continental hotel chain with Scandinavian Airline Systems. Thomas Cook was anxious to ensure that any travel opera-

tion bearing its name was not linked to any hotel or airline.
"We wanted to be sure that the new venture was in the same position to give independent advice as other Thomas Cook outlets," Mr Middleton said. The new chain is expected to begin operating in Japan in

April next year.
Thomas Cook, which had a turnover last year of £10hn, already has a presence in more than 120 countries. However, it is now expected to develop its network of offices in continen-

### to fruits of success in Awacs deal

By David White, Defence Correspondent

THE MINISTRY of Defence yesterday claimed success for its controversial offset programme linked to the pur-chase of Awacs radar aircraft from Boeing of the US.

Work placed with British ompanies under the deal had passed the \$1bn mark less than half-way through the eight-year span of the pro-gramme, it announced. A target total of \$1.5bn in

A target total of \$1.5bn in high-technology offset contracts was agreed after the UK opted for the Boeing aircraft and ditched the British-developed Nimrod early-warning system almost four years ago. The US group clinched the deal after lifting its offset offer from 100 per cent to 120 per from 100 per cent to 130 per cent of the value of the sale.

The prospect of its fulfilling its promise has since been called into question — espe-cially its forecast that the work would provide 40,000 job-years to British industry in the first five years.

In response to criticism from the cross-party Commons Defence Committee, the MoD said last year it would start monitoring the impact of the

monitoring the impact of the programme on jobs.

Boeing emphasised yesterday that the employment forecast was not part of the contract. Under the agreement, Boeing submits on a sixmonthly basis a list of contracts it has signed, and the MoD decides which of them to approve as offsets.

approve as offsets.

The \$1bn figure refers to the period from late 1986 to the end of last year. Boeing said a further \$272m worth which it had submitted for the same period was awaiting a final

A percentage of follow-on outracts for deals concluded contracts for deals concluded before the Awacs agreement can be counted as part of the offsets. This includes supplies of Rolls-Royce engines for Roeling aircraft. Critics of the agreement argue that this is work that British companies would have received anyway. The Awacs aircraft are a militarised version of the Beausy 707 strillner, the E-3 Sen-

ing 707 airliner, the E-3 Sen-try.

A FEW yards from an army barracks in a Jimmy Burns in Ulster talks to

sidestreet close to the walls of Londonderry, Northern Ireland's second city, there is a Gothic-style mansion. It has been home for more than a century to the Apprentice Boys Association, one of Ulster's most "loyal orders". Inside, one confronts the extent to which a community's

sense of identity can be impris-oned by history. In a panelled room hung with the sombre portraits of past general secre-taries, there is a plaque dedi-cated to the 13 apprentice boys who shut the gates of Londonderry on the army of the Roman Catholic King James II in 1689. The raising of the subsequent siege led to the defeat of James at the Battle of the Boyne.

The plaque proclaims: "May their heroic deed and battle cry of 'No surrender' stimulate each successive generation with fervency and zeal to uphold the crimson banner, the emblem of our uncon-quered city..."

In more recent times the slo-

gan 'No Surrender' has been invoked by Loyalist protes-tants when confronted by the slightest indication that their hold on power might be undermined by Whitehall or Dublin. Arguably, no other senti-ment has done more to pro-voke the wrath of catholics, and to undermine British gov-ernment attempts at dialogue.

Yet within the protestant community at large, the emo-tional charge of history has lost some of its force in the midst of contemporary political and social realities.

Mr Derek Miller, the current general secretary of the Apprentice Boys Association, roams around the ancient battlements with a funereal air which contrasts starkly with the bubbling optimism of some of the catholic inhabitants of Londonderry.

"Twenty years ago there were 25,000 protestants living on this side of the city. Now there are less than 7,000 and they are still moving out," he

Many protestants left Londonderry in the 1970s at the height of sectarian violence and they have continued to leave in a small but continuous trickle since then.

Mr Miller regrets the extent to which the catholics appear to have monopolised everything from urban regeneration

the Protestants and assesses their new willingness to compromise



Out of step: the mood among protestants suggests loyalist bands may be clashing with a spirit of conciliation

to the local football team which now plays in the Southern Irish league. When pressed, Mr Miller becomes less apocalyptic and rather more conciliatory. There is, he says, sufficient "goodwill among moderate nationalist people" in town, for protestants like himself to con-

sider moving back. Talks are under way between local protestant lead-ers, private investors and the government, to see if protestants can have a greater share in the urban regeneration which is being channelled largely through catholic com-

Even conciliatory Unionists, however, remain vehemently opposed to the precursor to the Brooke initiative – the Anglo-Irish agreement – which they believe gave Dublin excessive influence in the affairs of the province.

leaders

Those protestants who have chosen to remain close to the catholic community in Londonderry live in a drab yards along the city walls called The Fountain. The community remains, as it has for the past 20 years, encased behind an iron gate which is closed at night and a fence blocking off all views of the

Yet the siege mentality appears to be more apparent than real. In spite of the graf-fiti painted by the paramilitary loyalist Uister Volunteer Force and the crimson flag flying above one of the wall's turrets, inhabitants are not as closed in upon themselves as they once were, although there remains a pervading fear and loathing of

the IRA.

Ms Isa Porter was born into a family of B-Specials, the protestant police force that was disbanded after being held responsible for brutality

against catholics.
She remembers watching stones and petrol bombs being thrown into the Fountain by catholic youths. Today, she shops in the city centre along-side catholics, and takes holi-

"The catholics are as says, noting that the commu-nity still feels it needs the pro-

tection of the security forces against the IRA. against the IRA.

Within the loyalist tribal lands of Belfast, as in Londonderry's Fountain estate, the tough talk and their symbols are never far away.

The Shankill Historical Soci-

ety makes no pretence of where its priorities lie. In its shop window, there are banners proclaiming "Proud to be a Prod" and UVF emblems and uniforms. But the combination of urban redevelopment and the economic pressures of high unemployment and the need for more housing appears to be transcending religious preju-

dice and historical identity. In Belfast, Mr Ken Hagan remembers physically attacking catholics in the early days of the troubles. The man he shares an office with, Mr Augustus "Gusty" Spence, was released from prison in 1934 after serving 18 years of a life sentence in connection with the shooting of a catholic bar-

Mr Hagan and Mr Spence claim to be very different from the men they once were. They run the Shankill Activity Centre, where volunteers try to reconcile warring communities through the use of "mixed

The volunteers include catholics from the nearby Falls Road area who still have to negotiate a tortuous route-around the walls and steel pal-lisades, which separate the

Mr Hagan says: "Politicians have been getting us nowhere so we have to organise at com-munity level. Paisley doesn't speak for me. He doesn't want to look at change.'

Mr Jackie Redpath, a publisher of the Shankill Road newsletter and a director of the local development agency, believes that there is a "great desire" among ordinary people "to have quite simply a decent quality of life". By this they mean work, a decent house, and "peace to carry on their normal lives".

And yet Mr Redpath did not quite share in the optimism that is to be found at the Shankill Activity Centre.

He warns: "There is a great weariness here. The desire for peace is not the result of great

energy flowing but of a sense

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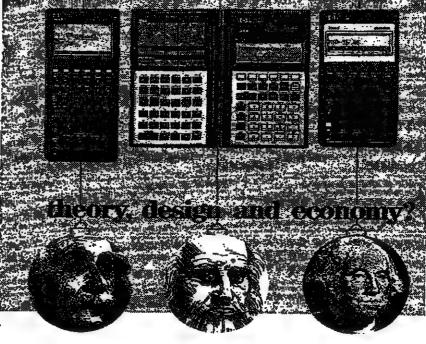
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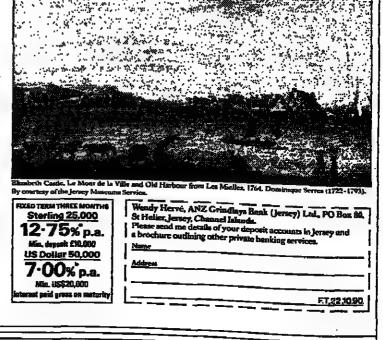
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### FT LAW REPORTS

# Owners can withdraw vessel

HYUNDAI ... MERCHANT MARINE COMPANY LTD V GESURI CHARTERING

lality

COMPANY LTD Court of Appeal (Lord Justice Slade, Lord Justice Balcombe and Lord Justice Bingham); October 16 1990

ther option to complete last voyage? outside the final terminal date specified in a Nype charter party, applies only to protect charterers from liability for delayed redelivery through no fault of their own, when they have siven anders through no fault of their own, when they have given orders for a legitimate last voyage which could reasonably have been expected to be performed in time. Owners are therefore entitled to withdraw the vessel if charterers, in breach of contract, give orders for an illegitimate last voyage under which she could not, at earliest, he redelivered within the charter period.

The Court of Appeal so held. when dismissing an appeal by Gesuri Chartering Co Ltd, charterers of the Peonia, from Mr Justice Saville's judgment that the owners, Hyundai Merchant Marine Co Ltd, were entitled to refuse to comply

with voyage orders.

LORD JUSTICE BINGHAM said that by a charterparty on the New York Produce Exchange (Nype) form dated April 3 1987, Hyundai as disponent owners, chartered Peonia to Gesuri.

By line 14 of the charterparty owners agreed to let, and charterers agreed to hire from time of delivery for about minimum 10 months maximum 12 months times charter, exact turation in charterers' option". By line 15 charterers had a further option to complete last voyage within below men-tioned trading limits. On facts assumed to be true

for the purposes of the arbitra-tion, the vessel was delivered to the charterers on June 11 expired on April 11 1968 and the 12 month period on June 11. On May 6 1968 the charter-ers concluded a voyage sub-charter from the River Plate to Singapore and Butterworth. Had that fixture been per-formed, the vessel would have been redelivered to owners no seriler than about July 19 1988.
On May 11 the owners pro-tested, contending that the pro-posed voyage was illegitimate.

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They saked for veyage orders which would enable the vessel to be redelivered by June 25, thereby giving effect to "about" in line 14. On May 17 they called for voyage orders which would enable the vessel to be redelivered within the charter period, or alternatively for payment of hire at an enhanced rate for the duration of the voyage orders to be redelivered within the charter period, or alternatively for payment of hire at an enhanced rate for the duration of the veyage orders to be redelivered within the charter period, or alternatively for payment of hire at an enhanced rate for the charterers to send her on the voyage, "seeing that they could not reasonably expect the vessel to complete it by the permitted margin."

That conclusion, though a minority view, seemed hard to challenge, given the majority decisions in the vessel which could reasonably be expected to be performed by final terminal date. Those were

The charterers accepted neither condition and the vessel was withdrawn by the owners.

Arbitraties jointly declared that under the charterparty the charterers were entitled to order the vessel to undertake a last voyage that started before the latest time for redelivery. June 11, as extended by any tolerance to be implied by about. On the assumed facts the charterers were therefore entitled to give the orders they did.

Mr Justice Saville allowed an Mr Justice Saville allowed an appeal and varied the award to declare that on the true construction of the charterparty the charterass were not entitled to order the vessel to perform a voyage which could not reasonably be anticipated to be completed before about June 11 and that the owners were 11, and that the owners were entitled to refuse to comply with any such order.

The charterers now sought to reinstate the arbitrators' decision.

Where a time charterparty where a time charterparty stipulated a definite date for termination of the charter period without express margin or tolerance, the courts implied a reasonable margin or toler-ance to allow for the exigencies of maritime business. Where margin or tolerance was expressly agreed, such implica-tion would not be made.

The nature of a time charter was that the charter was a for a finite period, and when the final terminal date arrived the charterer was contractually

charterer was contractually bound (in the absence of exonerating cause) to redeliver the vessel to the owner.

The cases and books drew a distinction between the "Illegitimate last voyage" and the "legitimate last voyage" and the "legitimate last voyage".

In the former case the charters gave an order for employment of the vessel which could not reasonably be expected to be performed by final terminal date. It was an order he was not extitled to give, and in giving it he committed a breach of contract. The owner need not comply, but if he did he was

final terminal date. Those were

orders he was entitled to give, and so were legitimate. But what if the orders for the last voyage were legitimate in that sense, but the charterer

in that sense, but the charterer failed to redeliver by final terminal date for reasons (such as bad weather) for which naither party was responsible?

The owners construed "further option" in line 15 of the charterparty as protecting the charterers against the ordinary consequences of breach of contract if they should fail to redeliver by final terminal date on a legitimate last voyage. The charterers argued that "further option" in line 15, entitled them to order performance of them to order performance of what, but for this provision, would be an illegitimate last voyage, with no liability beyond a liability to pay hire at charter rate until time of actual redelivery, notwith-standing that the voyage had extended beyond final terminal date as it was reasonably

expected by the parties to do.

If one tested the differing answers against the rules applied in English law to contracts generally, it seemed that the owners answer to be prehered. A party either did what he had agreed to do by the time he agreed to do it, or he breached the contract and paid

the consequences in damages.
In the London Explorer [1972]
AC I the majority held that if a charterer failed to redeliver within a period of reasonable extension, he might be in breach and so liable for dam-ages for the period from final terminal date to time of actual redelivery.
In the Dione [1975] 1 Lloyd's

Rep 115, on an issue as to whether "6 months 20 days more or less in charterers" option" provided a final termi-nal date, the majority held that it did, leaving no room for implied margin or allowance. On an issue as to whether charterers were in breach in sending the vessel on an illegit-imate last voyage, Lord Den-

were authority binding on the court in support of the owners' argument. They also seemed to accord with general contractual principle.

In line 15 of the charterparty, in the absence of any contrary indication, "last you age," was read as meaning "last. age" was read as meaning "last age was real as meaning last voyage under the charter-party. The language of line is was not at all apt to convey the meaning for which the charterers contended.

What the charterers were

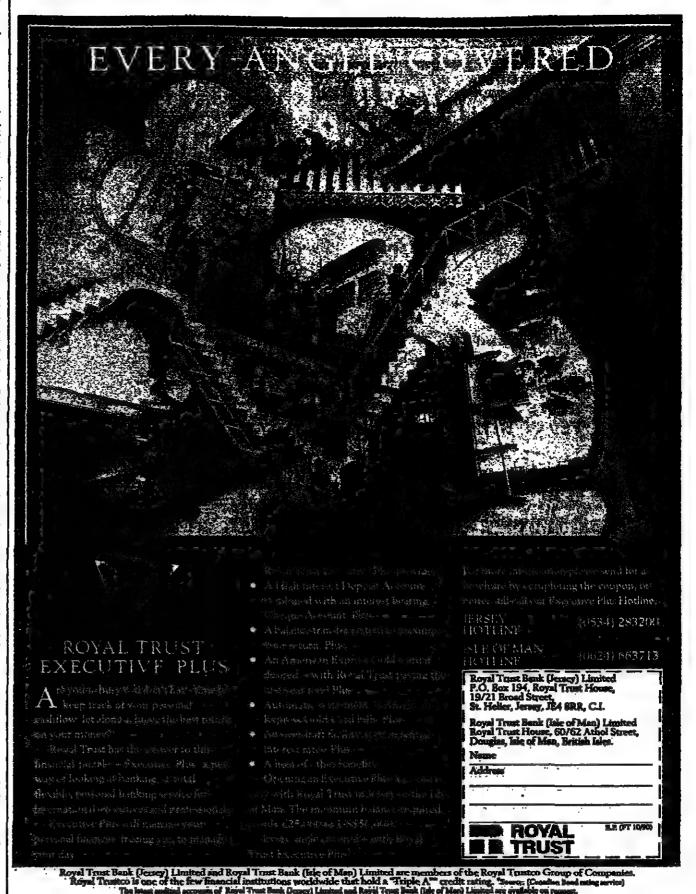
What the charterers were really claiming was not an option to complete, since no one doubted that a voyage once begun must in any ordinary circumstances be completed. What they were really claiming was a right to require the owners not to complete but to embark on an illegitimate last voyage. That was by definition a last voyage which was not under the charterparty but outside it. Line 15 was not very apt to express the owners' apt to express the owners suggested meaning either. They said line 15 gave the charterers a right to complete a legitimate last voyage at charter rate free of liability for damages, in respect of the period between final terminal date and redelivery.

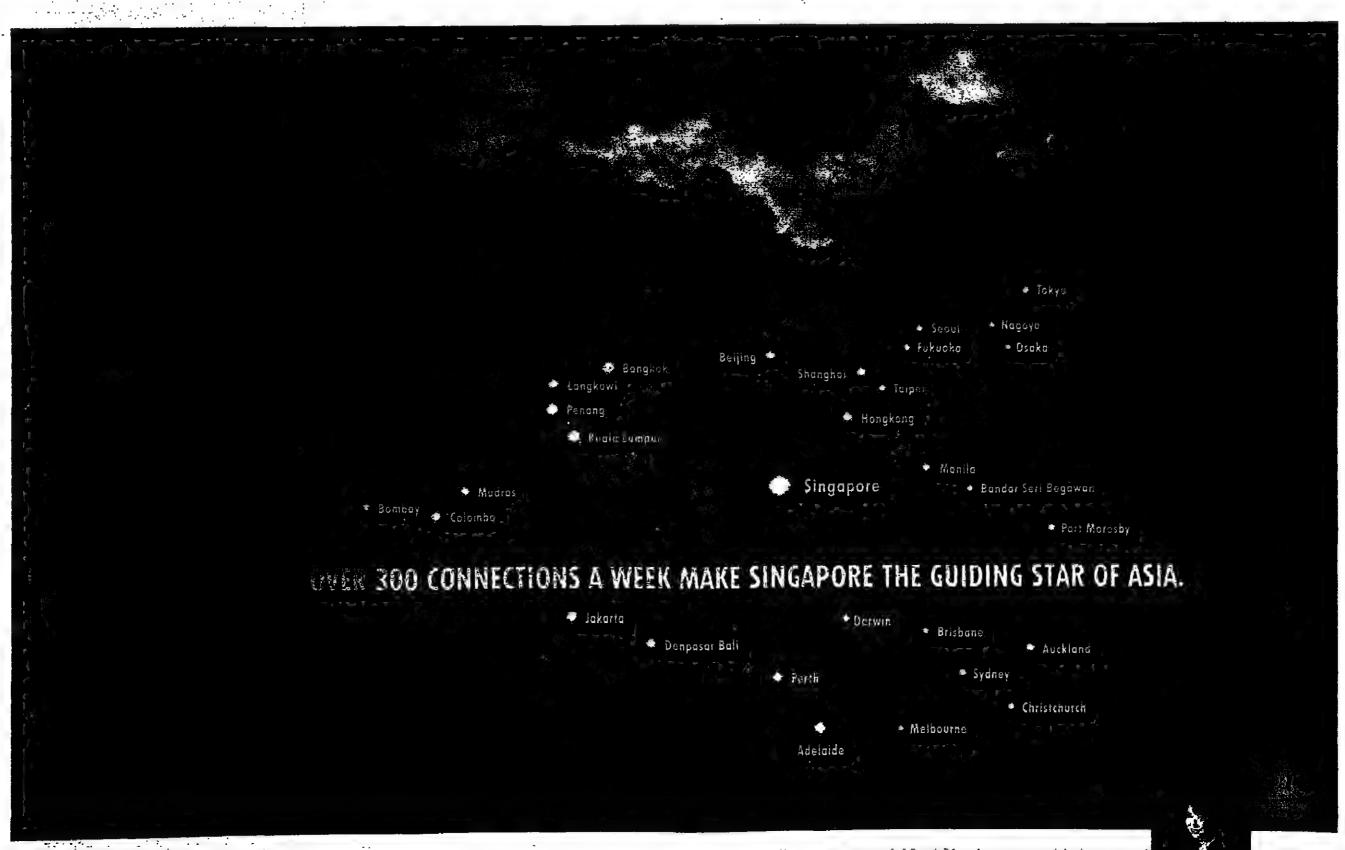
While neither construction was satisfactory, the less unsatisfactory of the two was the owners'. Line 15 gave the char-terers the right, additional to the right in line 14, to require the owners to complete a legiti-mate last voyage free of liabil-ity in damages in respect of the period between final terminal date and redelivery, at any rate unless the unexpected delay was caused by charterers breach of contract.

Mr Justice Saville's conclusion was correct. The appeal was dismissed. Their Lordships

For the Shipowners: Bernard Biz QC and Bernard Eder QC (Sinclair Riche & Tempericy) For the Charterers: Angus Glan-For the Charterers: And nie (Shaw & Croft).

Rachel Davies





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# When the eye is taken off the market focus

Charles Batchelor explains why diversification can look attractive but prove to undermine core activities

act up in 1983 by Darryl and Gregory Wong, had been in business for just a year when the two brothers decided

to branch out In quick succession they set up a van-hire business and opened a shop selling orthopaedic furniture. Both businesses were spin-offs from their core activity and the brothers were

keen to spread their risks.

It was not long, however, before the Wongs became painfully aware of the costs associated with their attempts to discontinuous. diversity. Turnover of the core business stagnated; the com-pany's limited financial resources were strained; and the two brothers found they were devoting at least 50 per cent of their time to activities

which accounted at most for 20 per cent of tunnover.
"We didn't realise what the drain on our time and on our working capital would be," says Darryl Wong, chairman and joint managing director of the south-east London-based company. "It was a bad judg-

On the advice of Greater On the advice of Greater London Enterprise, a smaller firms investment and training organisation which was originally attracted by the idea of investing in the orthopaedic furniture business, the Wongs decided to concentrate their resources on the office furniture. resources on the office furni-ture installation activities and

wound up in 1988.

After two years of losses
Progress has returned to profit. opened five new offices around the UK and is thinking of expanding into continental Europe, Turnover stuck at around film during the mid-1980s but is expected to rise from \$2.5m to film in the year conding June 1991.

ending June 1991. The over-ambitious diversification campaigns by large multinational companies have been the focus of much attention in recent times and the aggressive acquisition pro-grammes of the early 1980s

rogress International, the office furniture to core activities.

But, as the Progress experiments as the Progress experiments as the Progress experiments. ence shows, small companies may be no less prone to over-ambitious digressions from their core activities than large. Larger quoted companies may be more likely to diversify by acquisition while small firms will start up new activi-ties from scratch but the results are often the same. The small firms' lack of financial and managerial resources does,

however, make them especially vulnerable. Part of the problem facing the Wongs was that they were unsure of just how fast the market for their services would grow. But as office furniture systems have increased in sophistication and cost, manucturers and project managers have shown themselves increasingly ready to employ

Fashion jewellery, by con-trast; was a well-established sector when Jashir Anand set up in business in London's Soho in 1975. Yet nurket focus has been an issue which has had to be addressed by Anand Fashion Jewellery on its way to its current turnover level of

Amend started with a small shop acting as a wholesaler to London jewellery stores. Trade buyers would walk in off the street to buy six or a dozen pieces of a particular item of fashion jewellery. When business prospered and working conditions became cramped, Anard housit the trashold of a Anand bought the freehold of a 7,000 square feet warehouse in

7,000 square feet warehouse in Wembley, west London.
Jashir Ansad sent his son Ravinder to run the growing import business carried out from the Wembley warehouse while he stayed to run the Soho shop. But running what was still a very small business from two locations put intolerable pressures on the two-man management.

From just being a wholesaler Anand became a large importer of fashion jewellery from the Far Rast, Increasingly it was doing business with

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large retailers who would place orders for 100 or 200 dozen pieces. It had to decide whether to remain with the small customers with which it had begun or to move upscale to handle the large buyers.

The two Anands sat down one Saturday morning 18 months ago to discuss strategy with their accountant, Sub-hash Thakrar, a partner in the firm of Blackstone Franks. They decided to sell the Soho shop to concentrate on serving the larger customers who visited the warehouse. The warehouse is hig business while the shop was small business," comments Jasbir Anand.

Further advantages of this move were a reduction in over-head costs — staff numbers fell from 10 to seven — and the concentration of all the employees in one location where Jashir Anand, who was better at managing people than his son, could oversee the whole operation. The switch from small customers, who paid cash, to large stores, which demand credit terms, has, however, put pressure on cash flow, Anand says. Having identified the larger stores as his main market, Jas-

bir Anand has acquired a factory in nearby Acton where warehouse space will be rented to other fashion jewellery wholesalers. The aim is to create a centre which should attract more jewellery buyers than the individual firms could on their own.
For G Ettinger, a 50-year old

leather goods manufacturer, market from became a matter of survival in a declining sec-tor. Competition from low-cost producers in the Far East and from more upmarket manufac-turers in Spain and Italy has wiped out many UK leather goods companies in recent years, says Paul Ettinger, a director.

Over the years the company had broadened its range of products until it stocked giftplastics as well as housewares alongside its traditional leather products. It was no longer per-



Darryl and Gregory Wong: returned to profit

ceived by department store buyers as a specialist leather goods company, recalls Ettin-

At the same time many of the small retailers which made up its traditional customer base were closing. To survive, base were closing. To survive, G Ettinger had to concentrate

on the top end of the market and on the bigger stores.

"First of all we had to focus the business," says Ettinger, who joined his father and brother in the family firm two years ago after gaining an MBA at INSEAD, a French business school, and three years spent marketing marine paints for Courtaulds, the chemicals group.
"That sounds glib but the

traditional market was dying and we had to go somewhere. We had to cut out the knickknacks. The buyers were becoming very specialised and were starting to see us as gen-

were starting in see its as gen-ural marchanta."

Slimming down the com-pany's product range was a dif-ficult decision for Gerry Ettin-ger, the 70-year old chairman, but the cheaper items were gradually eliminated to con-gentrate on the more un-marcentrate on the more up-marcentrate in the incre up-har-ket leather goods. Most of the smaller customers who made hig demands on the company's administration but only placed

small orders took their own decision to move to other sup-pliers. Like Anand, G Ettinger also moved out of the centre of London to more roomy prem-

ises in Putney.

The next step was to start designing ranges exclusive to G Ettinger to give the company an edge over its up-market rivals. One of the firm's most successful ranges has been a burnished calf collection based on traditional British designs for items such as brush and manicure sets and flasks in shoulder cases, says Paul Ettinger, who has concentrated on design. Increasingly the company, which employs 19 people full-time and up to 30 workers, makes to order, he

The impact of these moves has been a 20 to 25 per cent annual increase in turnover over the past three years to a total of more than 21m this

The experience of Progress, Anand and G Ettinger shows that by concentrating on a core business, a company can reap the benefits of its expertise in a particular market niche. "We haven't reached our peak in the furniture installation busi-ness," says Gregory Wong. "We would be very cautious about

# PROGRESS HOU Charles Batchelor on the coult form minister's plans

Charles Batchelor on the small firms minister's plans

here appears to be little imminent prospect of major new programmes to back small businesses, according to Eric Forth, small firms' minister at the Department of Employment.

"I do not regard the number of initiatives I dream up as most of the ministerial effect.

of initiatives I dream up as proof of my ministerial effectiveness," Forth told a press briefing during a one-day conference, "Keys to Growth," in London last week. Forth replaced Tim Eggar as small firms minister in the ministerial methyrile of lest July rial reshuffle of last July.

The conference, billed as allowing owner-managers to discuss issues they saw as

important to success, was intended as the start of a dialogue between entrepreneurs, small business advisers and government, Forth said.
"The messages from the conference will be used for the development of small firms pol-

development of small times pos-icy and to provide important advice for other small busi-nesses," Forth commented. Some of those involved in the small business sector have, however, expressed concern that nothing is being done to help the many small husi-



Eric Forth: not convinced

nesses which were set up dur-ing the 1980s but which are now being adversely affected by high interest rates. by high interest rates.

Starting up in business involved risk and "an element of possible business failure," Forth told journalists. "The rate of business start-ups has been remarkably well sustained," he added.

If people were prepared to accept higher taxes then more money could be provided for

small business, Forth said. He small business. Forth said. He did suggest, however, that there might be funding for sharply-focused programmes such as SMART (the Small Firms' Merit Awards for Research and Technology).

One idea promoted by the British Venture Capital Association.

British Vanture Capital Association – for government subsidies to help finance the management of new seed capital funds – appears to be making little progress. "I want more evidence of the need for government help for seed financing," Forth said. "I am not convinced there is a lack of vinced there is a lack of finance for small businesses."

Areas which Forth believes Areas which forth balleves do warrant further study are the scope for encouraging small business owners to sell equity in their companies in preference to raising loans and the possibility of encouraging private individuals to invest in small businesses.

One "very tentative idea" was for the government to back the creation of a marriage-broking service for invesfors and entrepreneurs. But Forth said he was keen to avoid introducing "the dead hand of government."

# Getting everything taped

Charles Batchelor reports on some video and audio training aids

Tow to make husiness training more easily available and more attractive to the overworked small business owner? Many entrepreneurs lack the time to attend scheduled training sessions or if they do have the time, are resistant to the "talk and chalk" teaching approach.

The response of the educators and trainers has been to produce a training of the control of the control of training the cont

produce a range of training videos and audio tapes which can either be used at home, in the car or to increase the variety and appeal of formal training assigns.

ing sessions.
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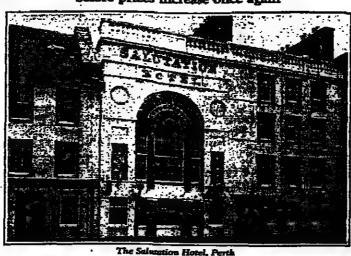


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No. 006780 of 1990 IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION IN THE MATTER OF RISH LIFE ASSURANCE plc

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M THE MATTER OF WISH LIFE - and -INSURANCE COMPANIES ACT 1982

was on 11th October 1990 presented to Her Melesty's High Court of Justice by the above-pared in the Life Assurance pic "FLAC") for the sensition under Section 49 of the above-pared into Act Title ACT for Schotters ("the the senction under Section 45 of the above-mentioned Act ("the Act") to a Scheme ("the Scheme") providing for the transfer of (Inter ska) the whole of the long-term business carrier in a LAG in the Mingdom in the above-named trish Life Assurance (Mesco) Limited ("Nesco") and for an order mating ancillary provision in connection with the set trees or main factor 30 of Act. Copies of the Petition, the Scheme and of the region on the terms of the Scheme and of the independent scharp; as required by Section report on me terms of the Scheme by an independent suchary as required by Section 49 of the Act will be open to inspection at the offices of ILAC whose addresses are set out in the Schedule hereto during normal business hours on any day (other than a Sesurday, Sanday or public holiday) for a period of 21 days from the publication of this Notice.

The Petition is directed to be heard before the Honourable Mr Justice Morritt at the the Honourable Mr Justice Morritt at the Royal courts of Justice, Strand, London WC2A 2LL on Monday the 19th November 1990. Any person (including any employes of LAC or Newto) who claims that he would be adversely affected by the carrying out of the Scheme may appear at the time of the hearing in person or by Counsel. Any person who intends so to appear and any policyhetder of LAC who dissents from the Schmene but does not insend to appear about give not less than two clear days notice in writing of such intension or dissent with the ressons therefore to the Solicitors named below.

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NOTICE OF DISSOLUTION

TO WHOSE IT MAY CONCERN.

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All creditors shall present their chains to Colece U.K., inc., Attention; the President, at the following address: olo Ranger Industries, inc. Reorganization Trust, Satta 1801, 1918.

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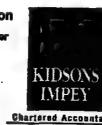
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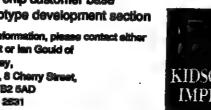
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# Elliott Carter's new trio

ALICE TULLY HALL, NEW YORK

Although Khiott Carter lives instrument, as ever in Carter, in New York and would in any international poll probably be international poll probably be distinctive interval preferences. From time to resemble the state of the st est living composer, his native city does him little honour. No local performance of his latest big work, the Violin Concerto, has been billed yet. First heard in San Francisco in May, it will soon have been heard all over Europe (in London in February), but not in New York And the New York Philarmonic plays him very sel-

But the chamber pieces do get done, and the latest of them, Con Leggerezza Pensoso, reached New York soon after reached New York soon after its Italian première. It's a five-minute trio, for clarinet, vio-lin, and cello. The subtitle is "Omnaggio a Italo Calvino," and the piece was commissioned by the Institute for-Musical Studies at Lation, Italy for performance of the Italy, for performance at the presentation of a prize, hon-ouring Calvino, for the best musicological paper of the

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Calvino was a writer playful and penetrating, elegant and erudite, and Carter's "With Thoughtful Lightness" reflects him. It is a captivating composition of grace, charm and integrity. The score is set out in 4/4, but clarinet, violin and ceilo play in a 3:4:5 metrical ratio that keeps things moving in a fluid, animated way. Each

ences. From time to time chords build up and pseudo-canons start to emerge, but individuality takes over, and the discourse is rivetting.

This is a successor to other "occasional" chamber pieces -Riconoscenza for solo violin. dedicated to Petrassi, esprit nuclesprit door for flute and clarinet, dedicated to Boulez, and Enchanted Preludes for flute and cello, dedicated to Am Santen – that have outlived the "contemporary reper-tory. And Con Leggerezza Pen-sosa will surely be joining then, for like them it recalls the remark of a Bessiesence the remark of a Renaissance humanist admiring a power-ful, perfectly fashioned bronze statuette: "Small to the eye but a giant to the mind."

The excellent New York

players were Ida Kavafian (violin), David Shifrin (clarinet), and Fred Sherry (cello). Sherry, an avant-garde cellist, is the new artistic director of the Chamber Music Society of Lincoln Centre, and he has revivified what was becoming a moribund group (the Sigh-treading Society of Lincoln Centra was its sobriquet). There were young people in his Alice Tully Hall audience.

Andrew Porter

### Cheltenham Festival

The stars of the Cheltenham Festival of Literature were saved for the last few days. Thursday morning began with A.S.Byatt, her Booker award barely in the bank, sharing the platform with Marina Warner, a Booker nominee in her time, to discuss the finer meanings of "romance". Their discussion went as far into the matter as fairy stories, an early enthusi-asm of both of them.

That evening came the Poet Laureate. Ted Hughes, who was billed to talk about Shakespeare; but he also traced the origins of the legend of Venus and Adonis, Shakespeare as we know it, Ovid too, but based on the typical "mis-match" of Adonis, who would rather hunt than woo the willing goddess. It sounded like the first half of a longer essay. The poems of another Poet Laureate, Cecil

Day-Lewis, were reed next day by Jill Balcon, with special understanding. Also on Thursday came Arso on Thursday came interference, some fragments of modern Czech writing (translated) emphasising the angless occupation of what is now Czechoslovakia; and D. L.Engit's account of his preparation of the Oxford Books of The and That — next spring. Friendship. Friday began with a talk on war poetry by Ameri-can Paul Fossell, which I found unexpectedly interesting for its non-British angle, though he dealt wisely with British poets. He included the Victnam war as well as the World Wars, On Friday afternoon, est, George MacDonald Fraser talked about Flashman. He claimed that Flashman's adventures depended on his having chanced on a suitable event capable of insertion into him, we had Dido Davies, biog-rapher of the falled genius, William Gerhardie. One constantly resolves to read Ger-hardle and somehow one never does. Miss Davies rekindled my

not a potential old buffer but a potential revolutionary.

He did not hear his uncle.

Michael Foot — another Cheltenham star — next day on Hazlitt's Liber Amoris, linked with Stendhal and Heine, and with some words on Byron that might not have met with his nephew's agreement. He was put in mind of the Liber Amoris by Melvyn Bragg on the arotic in his novel A Time to Dance a talk that unfortunately I didn't hear. Earlier on Saturday came an

interesting talk by Margaret Drabble on the English char-acteristics in the English novel, even when written by writers named Naipaul, Mo or Ishiguro, though not Rushdie. And later, there was Seamus Heaney. Heaney is everyone's favourits, and an encouraging favourite, and an encouraging number of young people heard him read his poems. There was much enthusiasm. I can think of no other living post who can raise as much — though I can think of some that should. Hearney was followed by Malcolm Bradhury and Peter Ansorge on the problems of producing Channel 4's The Group Train, a consciously Enfopean story sponsored by Europeans. One trouble is that Europe changes so much from day to day. so much from day to day.

Sunday, the final day of the Festival, included a good talk by David, Hare, whose play Racing Demon won this year's Olivier Award. He pointed out the public nature of the drama the public nature of the drama as opposed to the novel, so that a dramatist must not be afreid of looking silly if that is what his public decides. He was followed by John Mortimer, who read from various of his writings and pleased everyone except some ladies who combined that they never heard his punchlines.

I have not tried to tall about

I have not tried to tell about all the 69 items in this engag-ing Festival, just those that seemed to me to look interesting. Several of the players dropped in a tribute to Alan Hancox, the distinguished bookseller who has organised the function almost continually since 1980 but will retire this year. Or so he says.

# An admirable failure

William Packer reviews William Coldstream at the Tate Gallery

too late. As Lord Melbourne said of George Crabbe: "I am always glad when one of those fellows dies, for then I know I have the whole of him on my shelf", or the walls as the case

may be. Coldstream was much mourned and is now much memorialised, for he was the best of company. He was a great figure in the British Art World, Professor at the Slade School from 1949 until 1975, Trustee of the Tate, mem-ber of Advisory Committee this and Council that. The reform of the English Art Schools set in train by the +Coldstream Reports+ of 1960 and 1970 were perhaps more far-reaching than even he could have imag-ined, or wished.

ined, or wished.

In his time there can have been no one more generally influential than he, and if, in a very British way, that public importance is also taken to be a quality of the private artist, this present show is no less interesting for that. The only question is: does it leave us any the wiser? And the answer is probably no. How could a man so committed in principle to the personal integrity and private responsibilities of the artist, have had so personal integrity and private responsibilities of the artist, have had so powerful a voice in deciding the future direction of the public education of the artist? How was it that someone so assertive and positive in his influence could have been so modest, introspective, tentative and uncertain in himself as an artist? Coldstream himself would have been first to savour and remark the ambiguities, proestrainties and contradicguitles, uncertainties and contradic-tions he has left hanging in the air. The answer he might have admit-

There is no doubt that William Coldstream, who died in 1987 shortly before his 79th birthday, had earned the distinction he now enjoys of a full refrospective exhibition at the Tate (until January & sponsored by British Steel). It comes neither too soon nor too long, that his three years at the too late. As Lord Methoniza said of Slade in the 1996 had been more than slade in the 1920s had been more than enough for him, that "the longer you remain a student, the longer you go on producing student work." It would always be better to face up to the reality of what had been taken on.

reality of what had been taken on.

He certainly found it difficult enough himself, as this exhibition all too painfully bears out. He was never a naturally fluent painter with an instinctive feel for paint and colour, and what felicitous passages there are seem always to have been achieved in spite of himself. Every conscious mark was fought for and hard won. spite of himself. Every conscious mark was fought for and hard won, and it is a sad comment on the visual puritanism of the English art public, that such evident structs and sheer hard work should so generally have been taken as the mark of a great gift. What was marked, if anything, was a kind of despair.

The chimera he set himself to chast

was that of the accurate pictorial depiction of whatever he set up before him - model, still life, landscape. Everything was to be marked and reg-istered, easel, chair and model's throne each in its fixed position and relation to the other, everything checked and measured, and checked again. But life goes on, things move and hreathe and change, hour by hour, day by day. Nothing can be fixed, and even the most perfect model will never resume the pose in quite the same relation to the artist's even The flower blooms and the leaves eye. The flower blooms and the leaves drop. Paintings take time, and with every fresh registration of knee or breast or nose, the realisation is borne in on us, as on the artist himself, that there can be no end to it.



'Reclining Figure' 1980-81 by William Coldstream. Oil on canvas

The first and only previous major show of Coldstream's work was the retrospective sent around the country by the Arts Council in 1962 in the critical climate of that time, charged with the enthusiasm for abstract expressionism on the one hand and Pop-art on the other, his stance seemed radical and brave, his paint-ings the image of integrity and steady, conscientious pictorial achievement. I remember it well, but what I and so many others then took, by that contrast, for accuracy of per-ception and visual record, now for the most part seems thin and heatant. Even those most apparently resolved and statuesque of his works, the Slade nudes of the 1950s, set in the simple theatrical space of the life room, give themselves away in detail everywhere

left unconfirmed, indicated, altered and finally given up. Always the method, the obsessional measuring and checking, gets in the way, bring-ing the matter back not to an image free at last of its process, but one chained to it for ever.

chained to it for ever.

But if Coldstream was in the end a failure, there is much to admire in that failure, including the desperate courage to stick at what he was too intelligent not to know was quite impossible an undertaking. Ever the prisoner of his method, there remains to that self-imposed regime the quality of an honourable imprisonment, and from time to time throughout his and from time to time throughout his career we see him sub-consciously allowing himself his own parole. We know he will always go back, for he has given his word, but briefly we

glimpse the true artist at large, forget-ting himself for the moment in the immediate statement of the image. A couple of churches dark against the snow (1941 & 1947); a Bailey bridge in italy (1944); Caroline Cuthbert (1983) in the earliest stages of the portrait process; two deceptively simple flower pieces (1931 & 1983) — such are the works of the painter Coldstream might have allowed himself to be, but for himself. Diary entry for 4.1.46: "My interest does not become engaged unless I make a conscious effort. Moreover in painting this means comsaurover in painting this means com-ing down to making laborious mea-surements. This is strained and 'unnatural' — yet it is — or has become — 'natural' for me to try. I have to make a business of anything I do."

# Frans Brüggen

For the first concert of their South Bank season on Friday the Orchestra of the Age of Enlightenment was conducted by Frans

season on Friday the Urchestra of the Age of Enlightenment was conducted by Frans Brüggen, and if any of their subsequent appearances comes close to matching its excitement and panache it will be a remarkable achievement indeed. Brüggen is an exceptional musician: an authenticist of impeccable pedigree, and an interpreter with the vision and belief to use the period-instrument aesthetic as a mere beginning rather than a re-creative end.

With both his own Orchestra of the 18th Century, and in guest appearances with the OAR, Brüggen obtains playing of unself-conscious virtuosity that takes the breath at every turn. Here, in Haydn's Clock Symphony (No 101 in D) and Besthoven's Seventh, the string articulation (a hedry band, founded upon four double basses) was invariably lucid, the woodwind playing (with principal flute and oboe outstanding) always phrased with supple intelligence. The trust in his play-

ers is implicit, with no sense of regimenta-tion; players can be relied upon to be natu-rally expressive (just, one feels, as they must have been in Classical times) while the conductor takes care of the symphonic

mchilecture.

The result is constantly surprising, constantly illuminating. Brüggen's epic view of Beethoven 7 has already been heard in London with the Orchestra of the 18th Century; the theatrical sense of an unfolding drama, the way of accommodating every detail so that it contributes expanically to the overall structure, and the sheer physical presence of the sound — vivid brass, woodwind solos with an almost sculptural follness — draw the listener into the performance in a way that very few other conductors could comemplate. A most unlikely comparison is with Carles Helber, temperamentally and must cally they may be ulterly different, yet the results they obtain from orchestres are similarly belanced on the knife edge of

what is technically and dramatically possi-ble, and similarly compelling.

The Haydn symphony demonstrated that the same excitement can be drawn from a much more confined Classical score trom a much more commen classical score too. The plunge into the minor at the heart of the Andante produced the kind of frisson that 18th-century audiences must have drawn from it, while the Trio's rustic wind-band tune seemed like a real intrusion from another musical world rather than just a teme sneedotal effect. So Brigger manages to have it both ways able to gen manages to have it both ways, able to return his audience to the sound world of the 18th century and to restore that period's expressive vocabulary, while retaining the intellectual rights of interpretation of a thoroughly 20th-century mind. It is a very special achievement; he merits a place in the highest rank of contemporary conductors, regardless of performing

Andrew Clements

### ZURICH OPERA HOUSE

The Trojan horse, wheeled on in a cloud of dry ice, looked like a cheap classroom exhibit. There were hideous amplifica-tions, including the horn solo in the Royal Hunt and Storm, the choral cries of "Italie" and a series of crowd noises which sounded like a relay from the theatre canteen. The Hunt itself, described in the programme book as a "wild sexual nightmare", was a mish-mash

torium. The banal Act 4 ballet, ending with a snake dance, could have fitted any number of 19th century French operas. The Sailor's Lament was presented with as much sense of context as an audition aria.
Only the Hector scene – with
shafts of blue and green light
plercing the swirling gloom –
succeeded in providing a cre-

nearly cancelled due to the last-minute illness of the Dido, Ludmila Schemischuk. The theatre had to improvise, and as often happens in such cir-cumstances, the result was quite exciting. Agnes Habereder, an intense, pretty Cassandra given to vocal shriliness agreed to mime Dido (which she did with immense poise and conviction), while Dunis Vejzovic sang from the side of the stage. Miss Vejzovic's French may be hazy, but her vocal suppleness and noble tone were ideal, Giorgio Lam-berti's Aeneas had a bright, cutting top, but otherwise groped his way through the part like a verismo tenor. An excellent Anna in Vesselina

### The Wake

"In writing of the night," said James Joyce, "... it could not be done with words in their ordinary relations." So in Finnegans Waks, which explores the dreaming mind, he invented a language of his own. It is based on English but distorted by misspellings and continual punning. When they first tackle it, most readers find it completely unintelligible, apart from odd phrases, and they give up after about 20 pages. But there remains a devoted band of Joyceians who regard Findevoted band of Joyceians who regard Fin-negans Wake as one of the greatest novels ever written. These include Anthony Burgess, whose edition A Shorter Finnegans
Wake (Faber, paperback), containing an
outline of the plot, is strongly recommended to the first-time buyer.
They also include the actor and director

Paul O'Hanrahan, who has adapted selected sections of the novel for perfor-B.A. Young mance as The Wake. This dramatic version takes the form of a non-stop series of

duologues, lasting 90-minutes, which he and Chris Bliton perform with some large-scale children's bricks as the moveable setting. The show has an ingenious light-ing plot, and accompanying piano music by John Dunne. It was presented at this year's Edinburgh Fringe where it was well received and now it has come for a short account in the Book Theorem.

The main question it raises is - does the book become much more accessible and comprehensible when it is performed like this than when it is merely read? And the answer has, alas, to be, no. The same insuperable difficulties remain; so much so that about a quarter of the capacity audience on Saturday night trooped out before the end.

However, this does not by any means invalidate the experiment, which is fascinating to watch and conducted with remarkable versatility of voice and bodylanguage. Occasionally, as these fluent

players gyrate and gesticulate, "the smog lofts . . ." and things become momen-tarily clear — as in the fables of the Mookse and the Gripes, and of the Ondt

and the Gracehoper.

In the one recording to survive of Joyce declaiming the work, the section, Anna Livia, where two old Dublin washerwomen are engaged in a dialogue by the banks of the Liffey, the style is much more deliberate. ate, lilting and musically phrased than it

At the Bush it sometimes descends to rant and bluster. Ideally, one needs an Irish voice, like Joyce's, speaking the words while one follows them closely on the page. It is only then that one can simultaneously decode those gags aimed at the eye with those that work through the ear. Both are indispensable to the

Anthony Curtis

### ARTS GUIDE

resolve. Paul Foot, Friday evening is a particular Chel-tenham favourite, though he

never fails to berste his audiences' ignorance. His thyigorating talk explained how a belated reading of Don Juan had changed his view of Byron.

OPERA AND BALLET

Royal Opera, Covent Garden: Verdi's Attilo receives a first-rate new production at Covent Gar-den. Edward Downes conducts superbly, the production by Ell-jah Moshinsky is bold and stri-king, and Ruggaro Rahmondi, Josephine Bandose, Dennis O'Neill and Georgio Zancansro sing with flery eloquence: sing with hery eloposace; strongly recommended. Final performance of the dismal new.

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production of Singfried, latest instalment in the Götz Friedrich itstalment in the Götz Friedrich itme-tument production of Wagner's Ring. Bernard Heitink's conducting is the saving grace. English Nathonal Opera, Coliseum. Revival of the award-winning 1985 production by David Fountney of Bracon's Dr Faust, conducted by Antony Beatmont. More performances of The Magic Flats in Nicholas Hytner's fresh and uncluttered production; final one of the cogent, boldly Expressionist new production of Wagner's staged by Fountney, with Donald Maxwell in the title role. Dance. The Royal Bellet season opens at Covent Garden with

opens at Covent Garden with The Prince of the Pagodas.

Chatelet, Ballet Frankfurt in William Forsythe choreography juggling with theatrical illustons to Thom Willems music presents

AT&T Denstheater. Netherlands Dans Theater in La Cathédrals

engloutie (Kylian/Debussy) and

the world premieres of new bal-lets by Philip Taylor and Jean-Christophe Maillot (360 4930).

Lamb's Theorem. (40282840).

Amsterdam

The Hague

stro Commale's autumn ballet season is Rudolf Nursyev and Friends, with works by cho-reograpers Flemming Fündt, Maurice Béjart, Jose Limon, the 19th century master August Bournerville and Nureyev him-self. Palazzo dei Congressi (6435L11).

Scala Ballet Company, Duo Oriella Dorella and Laurent Hilaire in Giselle, with the origi-nal Benois sets, conducted by

nai Benois sers, Ciginited by Michel Sasson (Tue, Wed), and with Carla Fracci as Giselle and Zoltan Solymosi as Albrecht (Thur). Testro alla Scala

Boltzman

Messina's ballet, Vincent Van Gogh, performed by the Maggio Denza Company, Teatro della

Trieste

Musiektheater. The National Ballet with *Under My Feet* (Van Dantzig/Schat), *Pyrrhic Dances* II (Van Schayk) and a new ballet Franco Giraldi's production of Mozart's Don Giovanni, with sets by Josef Svoboda, conducted by Jan Linkens. The Netherlands
Opera in Mozart's Entithrung
aus dem Serail, directed by Helmut Polira. Netherlands Chamber Orchestra is conducted by
Hartmut Haenchen. (255 455). by Wolfgang Rennert Teatro Verdi (631948).

Paisello's Barbiere di Siniglia conducted by Alessandro Pin-zauti, with Luccetta Bizzi, Enesto Palacio and Marcello Linzi (Patra Vincello) Lippi. Teatro Verdi (542484).

The ISO (I'm so optimistic)
Dance Theater of New York led

by Daniel Erralow with their first full-length work, *Time Out:* rather too long, but with splan-did lighting effects by John Tun-huson, Teatro Olimpico. (Fri, Sat and Sun) (383304).

Opera. Lohengrin in Götz Friedrich's production has a strong cast led by Ruthlid Enger, Eva Johansson, Andreas Schmidt, Jan-Henrik Bootering and Peter Sciffert. Arabella stars Lucia Popp in the title role. Madame ropp in the title role, Malacine Rutherfy features Olivia Stapp, Marcia Bellamy and John San-dor. Fideho in Jean-Pierre Pon-nelle's production. Also Katja Kabanova.

وسناديد

Opera. Cormen convinces thanks to Alicis Nafe outstanding in the title role. Die Zauberflüg returns with a new cast led by Amanda Halgrimson, Dawn Upshaw, Robert Gambill and Petras Zentiment Newtonia Hald Franz Ferdinand Nentwig. Elek-tra highlights the week with two Strauss specialists Eva Randova as Klytemnestra and Gwyneth Jones in the title role. Two John Neumeier ballets and a Gustav Mahler programme round off

Frenkfurt

Opera. Guest appearance of the Tokyo Frand Kabuki theatre with traditional dance and songs. The controversial Arie Zinger production of Aufstieg and Full der Stadt Mahagomy. La Boh-ème in Volker Schloendorff's Coelho, Hildegard Heichele, Ale-jandro Ramirez and Albert Orin-

Opera. The successful Graham Vick Rigoletto production has a first-rate cast led by Dano Raf-fanti, Ingvar Wixell, Mariella Devia, Stephen Dupont.

Cologne

Opera. La Finta Giardinera is well performed by Hilary Gri-fiths, Teresa Ringholz, Janice Hall, John la Pierre and Jake Gardner. Orfeo ed Eurydice is wonderful sung by Kathleen Kuhlmann and Jungae Lee in the leading roles.

Munich

Opera. The successful Nicolaus Lehnhoff Ring cycle includes this week: Das Rheingold with Marjana Lipovsek, Nadine Secunde, Robert Hale. Die Walk-üre with Sabine Hass, Hildegard Behrens, Manfred Schunk, Martti Schwiss and Singfried with Salminen, and Siegfried with Rene Kollo, Julie Kaufmann and heims solid, voins assument and fildegard Behrens, all conducted by Welfgang Sawallisch. Also Cilea's Adriana Lecoureur and the Ballet Cinderella.

**New York** 

Metropolitan Opera. James Levine conducts the premiers of Piero Faggioni's production of Un Ballo in Maschera with Aprile Millo, Luciano Pavarotti and hino, Luciano Pavarott and Juan Pous, Beris Godenou, con-ducted by Yevgeny Svetlanov, features Stefamia Toczyaka, Gary Lakes and John Shirley-Quirk in Angust Everding's production. Guido Almone-Marsan conducts

Rigoletto with Jerry Hadley in Otto Schenk's production. (362

October 19-25

One Schem's production. (362 5000).

New York City Opera. John Lehmeyer's production of Martha, conducted by Arthur Fagen, features Sheryl Woods as Lady Harriet Durham, Martin Thompson as Lionel and Dean Peterson as Flunkett. Schoenberg's Moses and Aron is conducted by Christopher Keene in Hans Nengehauer's production. The week topher Keene in Hans Neuge-bauer's production. The week also includes *La Fauciulla del* West in Frank Corsaro's producwest in Frank Cots and grounding in and Scott Ellis's production of Sondhelm & A Lattic Night Mass. New York State Theatre, Lincoln Center (870 5570).

Mounale Dance Group, Mark Morris brings his exciting dance troupe to Washington with one local premiere among his famil-iar repertory. Elaenhower, Ken-nedy Center (457 4600).

Lyrie Opera. Harold Prince's production of The Girl of the Golden West premieres, conducted by Bruno Bartoletti, with Marilyn Zchau as Minnie and Placido Domingo as Dick Johnson. Wolfgang Brendel has the title role in Eugene Onegin, conducted by Bruno Bartoletti in Pier Luigi Samaritani's production, with Anna Tomowa-Sintow as Tatians and Gosta Winbergh as Lensky. Civic Opera House as Lensky. Civic Opera House  $(332\ 2244).$ 

Deutsche Staatsoper, East Ber-lin. *Der Rosenkavolier*, Tokyo Bunka Kaikan (235 1661).

# Les Troyens

This is the third European production of Berlioz's great Virgilian music-drams in six months: not bad for a work which for more than a century was considered too exacting to stage. And with greater familiarity comes a deeper appreciation of its contours and overwhelming beauty. Zurich proves that Les Troyens is one of those rare operas whose unassallable greatness dwars whatever blemishes it suffers in performance — in this case some odd casting, a haphazard production and liberal cuts in the proper

The staging was by Tony Palmer, whose career in opera is rapidly gathering momen-tum on the continent. But Les tion and concentrated impact he brought to the Zurich Peter he brought to the Zurich Feter Crimes last year. The visual framework (decor by Emanuel Peduzzi, costumes by Jacques Schmidt) was traditional — an open stage, a vast blue backdrop framed by a few stone columns, and an elaborate, often exotic parade of gowns and robes. But instead of using this as the basis for some sharply-focused dramatic ideas, Palmer filled the evening with funcfilled the evening with functional stage processions and superfluous technical effects. The result was a grand operatic pageant, hopelessly stage-

of couples chasing around the darkened stage, while laser lights flashed out into the audi-

ative response to the music. Palmer evidently decided that three and a half hours of

Les Troyens was enough—
nearly an hour shorter than
the Berlioz Festival production
at Lyon in 1987. There is really
no justification today—
especially in a theatre used to regular Wagner performances - for anything shorter than full measure, Raif Weikert conducted a stirring, surging account of the score - precise, eloquently phrased, with all the opulence that was lacking on stage. The chorus sang with lusty confidence. The performance I heard was

Kaserova, a Dido in the making, and a promising tenor in Reinaldo Macias' lopas.

Andrew Clark

# The Pixies

ACADEMY, BRUXTON

For that vast throng of white students who can't abide the current metronomic predictability of both rap and disco music; who look back nostalgically to the early "indie" scene when bands, seemingly straight off the squat, expressed youth alienation through dis-chord, feed back and verbal abuse, help is at hand from America. The Pixies, a Boston quartet, keep alive the pure tradition of

Of course, as they proved at the Academy on Saturday night, they have sophisticated the music through the sound barrier. Out is the brutally ugly, the spitting, the sexual posturing, the shock of the spew. Rather The Pixies have kept the short sharp bursts of energy that characterised punk, but refined it into the mainstream of pop. Before the abrupt endings to their songs the music seems to be straying into melody. There is also an into melody. There is also an untypical variety to the repertoire, a blaster like "Tony's Theme" being followed by the tuneful "Havalina". In the old days it was one pitch, one speed, blast. This is the new wave curled into style.

And it suits the older audi-

ence. Were these well fed and well bred young twenty year olds the future for the alienated camp followers of seven-ties punk? There were plenty of head bashers at the front but from many in the packed audience you got the impression, from their cool but keen detachment, that they were there because it was smart to be where The Pixies were. For once the Academy, with its ornate Palace of the People interior, looked a suitably stylish exiting the suitably stylish exiting the suitable suitable. ish setting.

The Pixies do not give much. Bassist Kim Deal shouts some incoherent encouragement to the shakers cramming the stage but the bulk of the front man, Black Francis, was largely immobile and the guitarist made little attempt to hide the fact that he is a competent musician. Indeed The Pixles were agreeably enter-taining, a cross between Velvet Underground and Echo and the Bunnymen, whose disappearance has left a void which has not really been filled. The Pixies were a baven of controlled passion, of designer power, at least compared to the mayhem erupting in the Brixton streets

### **FINANCIAL TIMES**

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# To be in Emu, or not to be

TODAY'S COMMONS debate on the UK's entry into the exchange rate mechanism will, undoubtedly, show wide sup-port for a decision that came oo late. But ERM entry is yesterday's issue. It is fully con-sistent with past British form, therefore, that the debate will also reveal strong opposition to any move, let alone a rapid one, towards economic and

A bet that the UK will, none the less, join Emu is a safe one. Quite apart from the usual fret-ting over being left at the starting gate, there are practi-cal reasons for going in deeper, now that the first step has

ERM membership does not merely mean following the merely mean following the Bundesbank's monetary policy, but means doing so at a real interest rate cost dictated by the persistent exchange rate risk. One reason British politicians, including Mrs Margaret Thatcher, have learned to love (or at least to tolerate) the ERM is that it seems to offer disinflation with lower interest rates. But durably lower interest rates require a more credibly fixed exchange rate.

The first step in that direction will be early movement to

narrow bands within the ERM. The second step will be acceptance of a single currency. That will be forced upon the British government by the wails of businessmen about the costs of foreign exchange risk and high interest rates. Fur-thermore, the British will eventually decide that a 12th share in the Eurofed would be better than none in the Bundesbank.

'Good thing'

The decision in favour of the Delors approach to Emu is likely to be taken for such res-sons as these, not on the basis of any meticulously argued economic case. For any one member country, even one as recalcitrant as the UK, that is inevitable. But it would be good to know that Emu really is a "good thing" for the EC. In its publication "One Market, One Money" and the esr-lier Cecchini report on the sin-gle market, the Commission shows how imaginatively it can apply economics when it finds it useful. One can only wish that the same principles were applied, with equal vig-

our, to other areas of Commu-

agricultural white elephant. However self-serving its analysis, the Commission analysis, the Commission makes a powerful case for Emu. But it remains a speculative one. This is not surprising. According to OECD calculations, real incomes are higher in the US than in any other country, which suggests that Emu is, indeed, economically valuable. But, within Europe, one cannot ignore the wealth enjoyed within some small currency areas, most notably by Switzerland.

The Commission notes that "the principal risk informing a monetary union is that involved in losing the possibility to change the nominal exchange rate". This means that most of the adjustment will fall on labour markets, which will, unlike those within the US, not be well integrated.

Central issue

What does the Commission have to offer on this central issue? In its paper, "Economic and Monetary Union", it remarks that "the Community should also seek to give concrete substance to the Social Charter while enhancing the capacity of national labour markets to adjust to competimarkets to adjust to competitive pressures in an efficient way. But how is this to be done when the first part of its goal conflicts in so many ways with the second?

Such difficulties are likely to be ignored. Unless the Bundes-bank succeeds in stopping it, Emu on the Delors model will be accepted because it is less problematic for several pivotal member countries than a long continuation of the ERM without exchange controls and realignments. For the same reason, the British alternative to the Commission's approach to Emu is likely to be rejected

ERM with knobs on.
For the UK the choice will probably be between being inside Emu or outside it. If so, it will choose the former. It may argue about the speed of transition and the need for prior economic convergence, it may complain about the implimay complain about the impli-cations for sovereignty. But it is likely to find, like France before it, that its present state ERM member is too uncon-fortably betwirt and between. The UK will accept Emu, because the alternative because the alternative common Emu - will be worse.

A worthwhile training aid

VOUCHERS for training are in vogue. Mr Michael Howard, secretary of state for employment, rightly praised the Training and Enterprise Coun-cils (TECs) for their plans to use vouchers as a means of extending the provision of vocational training to a wider segment of the workforce. Many individual TECs appear willing to provide a combina-tion of long-term vision and short-term action in seeking to reverse Britain's woefully inadequate training record.

By contrast, the government appears long on rhetoric and short on substance. Mr Howard could not back up his support with a commitment to main-taining funding for the TECs in real terms over the next year. The need to expand structural investment in training is, instead, likely to be reduced in response to a purely cyclical increase in public spending. This is folly.

The government has too often viewed training as a means of reducing unemployment rather than of upgrading the skills and mobility of the workforce at large. The first pilot voucher scheme, to provide about 10 per cent of school leavers with credits of £1,500 to finance vocational training. begins next April. The scope of this pilot scheme is too limited. this pitot scheme is too limited. Furthermore, before the pilot scheme had even begun, the government announced that future funding for youth training would be cut back, because the projected number of school leavers had declined.

'Dead-end' jobs

But training should not end at 18. A government study ear-lier this year found that one third of adult employees had received no training since leav-ing school. Recent studies con-ducted by Full Bullance ducted by Full Employment UK, an employment consultancy, suggest that many of the low-paid and young, long-term unemployed perceive the opportunities available to them as "dead-end" jobs poorly paid, with little prospect of training or promotion.

In fact, many training courses, in office skills and basic trades, are available at surprisingly little cost. But

low-paid workers are often unaware of the opportunities. To address this problem, Dor-set TEC has decided to offer low-paid workers vouchers worth £50, which can be used to buy employment counselling and perhaps some basic profi-ciency tests.

Little incentive

None the less, training plans are of little use if the training is too costly for low-paid work-ers. Employers have little incentive to provide financial support for training if all their competitors are not required to provide it too; moreover, the problem for many low-paid employees is that their ambi-tions stretch further than those their employers hold for Here training vouchers come

Here training vouchers come into their own. The South Cheshire TEC is considering a scheme to give low-paid workers vouchers that would cover two-thirds of the cost of the training course of their choice. The remainder of the cost would be financed by an interest-free loan from the TEC. The justification for sharing the justification for sharing the cost of training with the trainee is twofold. First, it would make the very limited funds of the TECs go a little bit further. More important, the trainees would have a stake in making their training a suc-

Cess.
Such schemes would not provide the solution to Britain's training needs on their own.
To be effective on a national scale, they would require an infrastructure of counsellors, trainers and courses that does not yet exist in sufficient scale and quality. In addition, many and quanty, in admition, many employees cannot realistically hope to undertake extensive training courses in their spare time. The widespread introduction of training vouchers would, therefore, strengthen the case for a statutory training contillement.

ing entitlement.
Training vouchers are no panacea. But creative thinking by the TECs deserves to be matched by a substantial financial commitment from government — if, that is, the government wishes to do more than tinker with the unemployhe Gulf crisis has entered a phase of genuine phoney

The US has long signalied October 15 as the rough date when the build-up of forces confronting land in build-up of forces confronting frag-in the Gulf would reach "critical mass". Although the multi-national land forces continue to be reinforced in Saudi Arabia and the field com-manders may still need a few more weeks to feel fully confident, from now on the military option against President Saddam Hussein of Iraq

President Saddam Hussem of Irau becomes serious.

For the first time since the August 2 invasion of Knwait, Iraq is faced by two credible prongs of international action — a United Nations enforced land, sea and air embargo combined with the ultimate threat of military action. The real denoar of war lies in action. The real danger of war lies in the mismatch between the limited time available to take advantage of the window of opportunity for mili-tary action and the longer period nec-

essary before sanctions take effect.
During the very early days of the invasion of Kuwait, Mr Saddam had to contend with the possibility of a US-led surgical strike. But since then Iraqi troops have been reinforced and become well dug-in, enabling Mr Sad-dam to behave in the most arrogant, uncompromising manner sure in the knowledge that no attack was likely

before the end of October.

With the two options out in the open, the broad international alliance against Iraq, led by the US, will be obliged to define more clearly how it intends to achieve its objectives. The fourfold objective, as spelled out by President George Bush on August 8, is — " the immediate, unconditional and complete withdrawal of all Iraqi forces from Kuwait"; the restoration of Kuwait's legitimate government; preservation of security of the Gulf;

and protection of foreign nationals.
"Mr Bush's four objectives repre-sent a fine political calculation of what Congress and the US public will wear, right now," says a senior offi-cial in the Bush administration. To expand on those aims would open up awkward questions such as the length of the conflict and casualties which the administration has no wish to face at this stage, especially before congressional elections in November. However, the means of achieving these aims are blurred. The emphasis continues to be on a resolution by peaceful means. This was stressed by Mr Bush before the UN General Assembly on October 2. "Let me emphasise that all of us here at the emphasise that all of us here at the United Nations hope military force will never be used. We seek a peaceful outcome — a diplomatic outcome."

Indeed having opted to use the Gulf crisis as a litmus test of the enhanced authority of the UN, both the US and its allies are obliged to cajole and persuade Iraq with a mix of sanctions and diplomacy for an as yet undefined.

and diplomacy for an as yet undefined but reasonable period. Nevertheless, the rape of Kuwait and its incorporation into a newly redrawn map of Iraq proceed apace. The cost to those states worst affected by enforcing the embargo like Egypt and Turkey increases, and the overall bill including military costs is running close to \$550 a month.

An Iraqi withdrawal — voluntary or forced — could well prove a poisoned chalice for the international community. A Saddam Hussein left with his enormous military machine backed by ballistic missiles, a chemical warfare capacity and nuclear ambitions would continue to present a signifi-cant danger to regional stability.

General Brent Scowcroft, Mr Bush's national security adviser, has warned on several occasions against assuming the US can use the current crisis ing the US can use the current crists as a pretent for knocking out iraq's chemical, biological warfare and nuclear complexes. Further, Mr James Baker, US Secretary of State, made clear in congressional testimony last week that the US must prepare for the possibility of life with Mr Saddam's machine intact. Never-

For the first time since its invasion of Kuwait, Iraq faces two credible prongs of international action. Robert Graham reports

# Beginning of the real phoney war



Bush faces a wary Congress; Saddam may overestimate his opponents' reluctance to fight

less, hawks both in Washington and among the Gulf rulers believe an unstated objective must be the elimi-nation of Iraq's capacity to destabilise the Middle East.

Mediation or negotiation with Bagh-dad has so far proved at best a frus-trating exercise in disinformation. King Hussein of Jordan, with much at stake maintaining a precarious equi-librium in his neighbouring kingdom, jumped in quickly to negotiate but got nowhere. Yassir Arafat, chairman of the relestine Liberation Organisation. has tried and falled to offer his good services. Mr Javier Perez de Cuellar,

An Iragi withdrawal could well prove a poisoned chalice for the international community

the .UN secretary-general, was rebuffed at the end of August. Only Mr Yevgeny Primakov, the special Soviet envoy of President Mik-hail Gorbachev, seems to feel a deal could be struck with Mr Saddam. He came away from talks in Baghdad on October 5, sensing Mr Saddam could be persuaded to withdraw providing a face-saving formula could be produced - part of which would be a commitment to discuss the Arab-La-raeli conflict.

Such overt linkage is vehemently resisted by Washington and its allies who have sent inces to the Gulf. But separation of the Gulf crisis and the Arab-Israeli Israe has become more

difficult in the wake of the international outrage over the killing of 21 Arabs in Jerusalem by Israeli security forces on October 8, President Francois Mitterrand of France also put on record at the UN a proposal that, if and when Iraq withdraws from Kuwait, the Palestinian question should be addressed. Those who have visited Baghdad recently say this is the sole proposal from the countries with forces, represed against Iraq to with forces ranged against Iraq to have stirred Mr Saddam's interest. Against this background three sce-

narios emerge:

Sanctions and the military build-up against iraq are maintained indefinitely, eventually forcing Mr Saddam to withdraw or provoking his overthrow which would in turn permit an Iraqi withdrawal from Kuwait.

Mr Saddam withdraws on his own initiative before sanctions are seen to have worked in order to avoid a military conflict. Withdrawal might be complete or memby to the lines of erios emerge: complete or merely to the lines of Iraq's newly extended province of Basra, Saddamiyat al-Mitla (which permits proper access to the waters of the Gulf and leaves the Kuwaiti side of the Rumeilah oilfields in Iraqi

• Military means would be used to recover Kuwait, the optimum time being between mid-November and early February. Almost certainly this would entail the destruction of Iraq's military machine and by the same token the Saddam regime.

Following the sanctions path has the attraction for the international

anti-Saddam alliance of avoiding a bloody and costly war with unpredict-

able consequences. This is why it remains the principal plank of UN-di-rected policy. Yet of necessity sanc-tions require time. A senior Egyptian military intelligence officer told the Financial Times: "The embargo needs-time time must be given for senstime...time must be given for sanc-tions to take effect...It is not yet a question of using military force. The intelligence officer mentioned Febru-ary as the month in which it might be possible to assess whether sanctions were working, for at that stage Iraq should be approaching "zero point" in its capacity to withstand the international embarge. A recent study by the

Any overt linkage with the Palestinian issue is vehemently resisted by Washington and its allies

Recommist Intelligence Unit reached a similar conclusion. There will be very severe ecosomic dislocation and hardship imposed by the embargo, but in two crucial aspects — food and fuel — Iraq and (Iraq) occupied) Kuwait can survive for a number of months, perhaps until the end of March 1991," says the EIU report. Given the departure of more than

1m foreign workers and nationals from Iraq and Kuwait, plus Iraqi stockpiles of essentials and the wind-fall stocks looted from Kuwait, this estimate of a six month breathing. space may be conservative. But in the longer term, Iraq, unable to sell oil, its sole source of hard currency,

would find it difficult to survive suc

As for the level of internal dissent, the hermetic dictatorial regime in Baghdad offers few chies. The planners both in Washington and in the field in Saudi Arabia are operating on the basis that they are dealing with a cohesive Ba'ath leadership held together by a ruthless man.

The enormous array of military forces now directed against Iraq undoubtedly adds muscle to the sanctions. Yet, the timetable for the use of these forces does not always ride in tandem with that of sanctions. The date at which the Guif build-up reached battle readiness appears to

date at which the Gulf build-up reached battle readiness appears to have slipped as the difficulties of command co-ordination and reinforcement were underestimated. But the latest military intelligence briefings—with no appearent attempt at disinformation—insist the time for military action is best between late November and February.

This is primarily based upon the need to exploit the cooler winter weather conditions in an exceptionally hostile climate. On such logic, if

ally hostile climate. On such logic, if March is allowed to pass, the military would have to wait until the following would have to wait until the following winter — unless action was limited to air strikes. Such a wait have the advantage of further tightening the screws on Iraq. But the delay also raises issues such as the domestic pressures on a US president keeping large numbers of troops overseas unused, to say nothing of the cost.

King Hussein suggested last week that he had been told by Mr Saddem prior to the invasion that the Iraqi leader intended to take over the whole of Kuwait only as a bargaining counter. His real aim was perhaps limited to obtaining the islands of Buhiyan and Warba plus the Rumelah oilfields that straddle the Iraq-Kuwait frontier. Since August 28 these

wait frontier. Since August 28 these have formed part of the extended province of Basra, Saddamiyat al-Mitla, not Kuwait proper which has become Iraq's 19th province.
Faced with the UN embargo and

multi-national force prepared to fight Mr Saddam may decide partial of complete withdrawal offers more dividends, particularly if he retains his military machine intact and can obtain some commitment from the nternational community to deal with international community to deal with the Arab-Israeli conflict. Such a move risks fragmenting the anti-Saddam alliance and of necessity would force each country involved to reassess the purpose of its military commitment. The Arab contingent confronting Iraq has never stated its purpose is other than defensive.

On this analysis, the military contion requires more thinking

On this analysis, the military option requires more thinking through. Few doubt the Iraqi army could be beaten; but the daunting human cost and the consequences of a US-led battle force destroying the Iraqi war-machine have to be justified to many different audiences.

Provider for this reason the US

Precisely for this reason, the US Senate foreign relations committee recently told Mr Baker very plainly that the administration does not have a blank cheque for military action.
The US Congress and American public opinion is in a wary mood. Military action also has to take account of the action also has to take account of the sensitivities of the US's Arab and non-Arab allies. (The multi-national force is a guest on Saudi soil). Nor can the unprecedented consensus, so carefully constructed in the alliance against fraq at the UN round economic sanctions, be easily buildozed into war. In this phoney war, Mr Saddam may overestimate the refuctance of the consensus to fight and hours exist. his opponents to fight and hang onto Kuwait too long. Past performance indicates he will bluff it out until the last. Avoiding war will not only test the international community's nerve and patience. It entails Mr Saddam possessing a fine sense of his own survival and being able to gauge his

opponents' strategy to the point just before they decide force is necessary. Additional reporting by Tony Waller and Lionel Barber

### **OBSERVER** Directors out of focus

The Businessman Survey, by Research Services (RSL), may have to change its title before long.

The 1990 survey admits that

women now account for 10 per cent of all those of middle or higher management status -an increase of a quarter since the last survey period two

Moreover, Dawn Mitchell, chairman of RSL, says that women have got a foot in the board room door to the extent that 6 per cent of women in es are now board direc-

The survey has also found. that ninety-four per cant of the women board members are married. Which indicates, says Mitchell, "that power in the boardroom does not pre-cinde women from a successful

But I have difficulty in get-ting into any sort of focus the the new survey identifies.

He is "botween 35 and 64"
years of age, which is hardly
surprising, "Neither too young
nor too old", as the song goes.

To maintain his awareness
of current affairs he will, also

unsurprisingly, "Catch up with the news by watching televi-sion, and is also more likely than not to read a national

daily paper".

As for leisure, Our man is reported to take his holidays Both in the UK and overseas". when he can tear himself away from his desk.

RSL seems to be saying that board directors are more or less the same as the rest of

Self-help

■ There is a last twist to this year's public spending round, which suggests that while the Treasury has been clamping down on budgets with one hand, it may yet be holding out for more spending with

the other.
'The deal between John Mac-Gregor, the education secrelary, and Norman Lamont, the chief secretary, means that all the major departments have substantially agreed their bud-gets. The small department of Customs and Excise, however, is still refusing to settle. Richard Ryder, the minister in charge of C & E, can be expected to be particularly awake to all the traditional gambits in the final negotiations. He is himself paymaster gen eral and a Treasury minister.

Hiscocks' ride ■ It is a sign of advancing

years when even racecourse managers begin to look young. At just 27 Tom Hiscocks claims to be the youngest in the profession. He is cutting his teeth this week on his first meeting at Nottingham Race-course where he has just been

made manager.
Such are the changes in
horse racing in Britain as the
industry strives to be more
commercially-oriented that Hiscocks has emerged as one of the first of a new breed of professional managers-in-train-ing for a national company. Earlier this year he joined Racecourse Holdings Trust, the company that owns the courses at Cheitenham, Win-

courses at Cheifenham, Win-canton, Newark, Aintree, Hay-dock, Warwick, Market Raison, and Nottingham.

After assisting Edward Gil-lespie, who runs Cheltenham with such panache, Hiscocks has been given his own course. His brief is to secure a good commercial return on the fill 2m investment about to 1.25m investment about to be made there on a new development, including private viewing boxes, a new weighing room, and an office complex. Hiscocks has already packed ten years racing experience



"I was expecting Sylvester Stallone".

started as a stable lad for the trainer Nick Gaselee at Lambourn, and went on to other trainers in Britain, Australia, Ireland, and the United States. He got five rides "under rules". To gain commercial experience he went to work for the City of London marketing agency Hill Murray for two years and, while there, won years and, while there, won a bonus by bringing in a prize new account, the British Bloodstock Agency. He wants to sell Nottingham

racing harder by holding more end-of-week and evening meetings in place of unfashionable Mondays and Tuesdays.

Sweet pork

■ The sweet smell of success is wafting through the as weiting through the National Agricultural Centre's pig unit, where a special feed has reduced the stinging effect of ammonia in the sir by more

than 40 per cent. The feed is said to be, "a unique combination of Yucca plant extract, microencapsulated bacteria, and enzymes, which work together to reduce noxious gases in animal

Pigs are, of course, omnivo-rous, and they did not turn up their noses at the new prod-uct, which is called De-Odor-

The trials are being conducted by Colborne-Dawes Nutrition, a Derbyshire based animal nutrition company which has sole marketing rights.

Press day

President Felix Houphoust-Boigny of Ivory Coast has said that his country will re-estab-lish diplomatic relations with South Africa if he wins the presidential election due to be held next week. That would make it only

the second sub-Saharan state, after Malawi, to have an embassy in Pretoria.

Nobody doubts that Boigny, aged 37, who has led his country for the three decades since independence will win.

independence, will win.
In preparation, therefore, a group of Ivorian journalists has been in South Africa at the invitation of the government there to see the former parish state at first hand. parish state at first hand.
By all accounts the visit has
been a wild cucrea. The two
rian delegation has been given
the full red carpet treatment,
including chauffeur driven
Mercedes, a sightseeing tour
of the Cape, and dancing in
the night clubs of Soweto.
At least one of the group,
a journalist from the Ivory
Coast covernment controlled

Coast government-controlled daily, Fraternite Matin, has been won over. "Johannes-burg's fanfastic", he enthused. And what of spartheld, and

the simmering civil war between supporters of the ANC and Inkatha? "I've seen no apartheid or violence. All that's just propaganda".

Down and out A sign of the times in the window of a former dress shop in Birmingham, "We undersold



# Worries dent ERM euphoria

the bills normally flow in.

And so it is proving with
Britain's entry into the exchange rate mechanism of the European Monetary Sys-

Sterling's caused rate - 295.

Deutschmarks to the pound was proposed by the government and accepted with hardly a murmar on the weekend of entry. Indeed, expectations were widespread that stering would shoot to the top of its

would shoot to the top of its permitted range of DM3.132 in the system.

Since them, ERM suphoria on financial markets has ebbed. The pound slipped below DM2.35 last week. As Britain's economic prospects have darkened, there has been closer questioning of the implications of what may be Britain's him. questioning of the implications of what may be Britain's higgest economic policy decision since the collapse of the postwar Bretton Woods system of fixed exchange rates in 1973.

While the government defends the pound's ERM level—and will do so again in today's House of Commons debate—concern is growing among industrialists that the rate is too high.

among industrialists that the rate is too high:

Worries have been brought into sharp focus by had news on pay. The rise in average earnings to an animal 10.25 per cent in August, the likelihood of a tough pay round in the motor industry and the news that British Rall has offered a 25 per cent in a paying the pay to the likelihood of a tough pay round in the motor industry and the news that British Rall has offered a 25 per cent rise in haste revited. 25 per cent rise in basic pay to signalling engineers on Net-work South East have raised fears as to whether Britain can stay competitive in a fixed-raise system.

W. Alebert

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A may be the

Problems

Industrialists are already Industrialists are already admitting to discomfort with the arrangements — in contrast with the Confederation of British Industry which—has welcomed that there are "clouds on the horizon" despite yesterday's trade figures which showed exports holding up well last month compared with August.

Angust.
According to Mr Richard
Freeman, chief economist of
Imperial Chemical Industries,
the DM2.95 rate "will have an the DM2.95 rate "will have an impact on every company engaged in exporting from Britain". Mr Freeman says that industry feels the rate is too high and will have to adjust. "Unless there is a remarkable change in pay-bargaining behaviour, that will mean unemployment rising faster than it would have done." Small businessmen too are worried. Mr David Pennock,

Peter Norman on concerns over sterling's DM2.95 rate of entry

Britain's international competitiveness Index of relative normalised unit labour costs, 1985-100



chairman and chief executive of Astell Scientific, says he is "uncomfortable" about the rate. Astell is based in Sideup, Kent, simploys about 120, and makes and sells some forwarth of laboratory equipment a year. About a quarter of sales are exports and Mr Pennoch fears that with the pound pegged to the D-Mark, his products will be undercut by US and German producers in midchuluman and chief emonitys and German producers in mid-dle and far east markets. In the West Midjands econo-

m the West Midlands economists say companies are now paying a heavy price for having bid up wages to secure skilled workers in short supply. "The prime concern in the region was to get a stable rate and not think about the level," says one Birmingham-based economist. Now industry is finding the level high. It would have been happier with DMZ.65 to DMZ.75."

concern was also apparent on the bank bunches of parishment has week. Mr Ron Leighton, Labour MF for Newham north-east, castignted the government's policy as "creay, stupid and misguided".

However, securing a high exchange rate for the pound that would keep import prices low and limit industry's capacity to grant big wage increases was one of Mr Major's objectives. He told the House of

Commons that went that a firm exchange rate was "a vital part of government policy to maintain tight monetary condi-tions to reduce inflation. He was "confident that a central was "confident that a central rate of DM2.95 is snatumable".
According to the chancellor, British's large current account deficit, which last year reached a record £19.1hn, reflects domestic demand outstripping domestic demand outstripping. supply rather than an uncompetitive exchange rate. Britain's recent export per-

Britain's recent export per-formance gives some support to his view. Between 1985 and the beginning of this year Brit-ish volume exports grew by about 40 per cent against 36 per cent export growth for Britain's 10 leading industrial commettions as a group. In the competitors as a group: In the five years to 1965, the positions were reversed, with the other industrial countries increasing their exports by nearly 16 per cent against a 10 per cent rise in UK volume exports. British exports have also

British exports have also captured a growing share of world markets. According to Mr Geoffrey Dicks, a senior sconomist at the London Business School, British's share of world trade probably reached its highest level for a decade in the second quarter of this year. In addition, recent inward investment into the UK by groups such as Nissan and

Beware of visiting small countries: you can easily get an exaggrated sense Toyota of Japan soggests that powerful foreign manufacturers are not put off by the government's strong exchange rate policy and instead see the advantages of a UK base in the post-1932 European single market. In a recent study, Salomon Brothers, the US investment house, forecast a manufacturers.

house, forecast a manufacturing boom for Britain in the 1990s, describing the UK as a possible "Hong Kong of

Europe".

In his defence of the ERM entry rate, Mr Major argued that DM2.95 was sterling's "average inflation-adjusted real rate of the past decade". Hactited three independent analysts' assessments of the pound's purchasing power parity which suggested that the pound was competitive with the D-Mark at DM3.90, DM3.19 and DM2.95. He also said inter-

and DM2.95. He also said Inter-national Monetary Fund fig-ures indicated that industry will be competitive at DM2.55. It is in the complex thicket

of purchasing power parities (PPPs) that Mr Major is on weaker ground — they are at best an unreliable guide to

competitiveness.

Goldman Sachs and UBS Phillips & Drew, two London investment houses, each calculate sterling's purchasing power parity rate against the D-Mark at about DM2.30. But Mr Gavyn Davies, Goldman's chief economist in London, believes that the ERM entry rate of DM2.95 is shout right.

rate of DM2.95 is about right.

Mr Bill Martin, Phillip's & Drew's chief economist, thinks DM2.50 to DM2.70 would have

been a more appropriate rate.
The gap is emissioned primarily by different perceptions of what the exchange rate should achieve. Mr Davies feels a

lower rate would have no effect in curbing inflation. Mr Martin believes the government's cho-

sen entry rate may produce a "lead balloon" economic sce-nario in which it must raise

interest rates at some point when it should be enting them to sustain activity.

Whether DM2.25 turns out to

be a prudent rate or act of folly depends on developments, par-

depends on developments, par-ticularly in wage negotiations. Since the pound entered the ERM, both Mr Major and Mr Bohin Leigh-Pemberton, the governor of the Bank of England, have stressed that wage increases must fall if the ERM experiment is not to end in teers. Without wage modera-tion, the DM2.95 rate could

tion, the DM2.95 rate could

become a huge gamble for the government and especially for Mr Major, in what is now a pre-election period.

tion, was either directly inspired by, or certainly connived at by, the Greek Cypriot leadership itself."

For the next 11 years Turkish Cypriots lived in encisves in few of their lives (The Lattern Connections)

in fear of their lives. The last-in fear of their lives. The last-straw for us, and for Turkey, came in 1974 when Greek forces and Greek Cypriot para-militaries seized power in order to among the island to

order to sumen the island to Greece and murder the remaining Turkish Cypriots. Five days later Turkey intervened to save us, and we now live in peace guaranteed by Turkey in the island's northern third. The United Nations Security Council called for the withdrawal of Greek troops, but it has never called for the withdrawal of Turkish troops.

drawal of Turkish troops, which are present by virtue of the 1960 international treaty of

the 1960 international treaty of guarantee. To argue that Turkey should have withdrawn and left us again at the mercy of the Greek Cypriots is legalistic nonsense. We have accepted — and Greek Cypriots have not—the 1986 UN plan for a settlement, including the withdrawal of non-Cypriot troops. Aiper Faik Genc, press counsellor, Office of the London

Office of the Lond

of your own importance.

I went last week to the
Basque Country: a country of
3m people, the majority of
whom vote regularly for different varieties of Rasque nationalism, and will do so again, if
contribute wells are anothing in alism, and will do so again, if opinion polls are anything to go by, when they re-elect their automomous Basque parliament next Sunday; a country. Moreover, which was only invented about 100 years ago, when Sabino Arana, the founder of Basque nationalism, coined the name "Euskadi" to give a common identity to the regions, until them separate. regions, until then separate, where the Basque language

was spoken.

I was invited by the Funda-ción Sahino Arana, a think-tank closely associated with the Basque Nationalist Party (PNV), which is the dominant party in the Basque govern-ment and confidently expects to increase its work thanks to to increase its vote, thanks to the decline of a splinter party led by the former prime minister, Mr Carlos Garatkoetres (a kind of Basque David Owen). Mr Joseba Aguirre, son of the president of the shortlived Basque Republic of 1936 and now director of the chamber of commerce in Bilbao kindly commerce in Rilbao, kindly invited me to lecture there on European security in the

I knew I would be treated I knew I would be treated very hospitably, but I had not been prepared for quite the VIP treatment I got, culminating in a full-page report of my lecture in one of the local newspapers under the headline "Edward Mortimer y el futuro de Europa". (Although the Basque language, famous for its lack of resemblance to any other known language anyother known language anywhere in the world, is of great emotional importance to Basque nationalists, they rue-fully admit that it is in current use only by a minority, whereas knowledge of Spanish

The key to the enigma was a The key to the enigma was a map, purportedly representing "Europe in 2020", which had little or nothing to do with my lecture but was reproduced prominently below the newspaper report. This map first appeared in the FT on January M. to illustrate an article in a appeared in the FT on January 24, to illustrate an article in a special survey we published on "East Europe in Ferment". In the FT it was firmly labelled "a fantasy", and the article stressed that it was simply an "enercise of the imagination". I carefully disclaimed any pretension to second sight. Egged on by colleagues at a moment on by colleagues at a moment when we were all filled with emphoria at the sudden liberation of eastern Europe, I was

FOREIGN AFFAIRS

# New era for nations in embryo

Edward Mortimer hopes that it will soon be easier to redraw borders than to move people

matter as much as they once did, and certainly they are not worth fighting for. But I really did not expect the article to attract much attention.

As it happened, I left London for Prague just after completing it, and there contracted a nasty bout of flu, with the result that I never even saw the proof of the map before it was published. Had I done so, I like to think I should at least have corrected the inadvertent have corrected the inadvertent transposition of Flanders and Wallonia (an exchange I do not anticipate even in my wildest

If there was a serious point to the article, it was that in a world of instant global communication frontiers should not matter as much as they once the index of the link-up. Others distinct the implied separation from western Europe. Almost all strongly dislike the idea that south-eastern Turkey might secode, or even might become generally known as Kurdistan.

It was certainly provocative of me to put that in, but my starting hypothesis, a deliberately optimistic one, was that by 2020 it will no longer be received to be an appropriate to be a properly to be a properl possible to keep people inside a state if the majority of them would rather be outside it. Minorities who are seriously unhappy will leave, but where a majority in a sizeable region

In a world of instant global communication frontiers should not matter as much as they once did, and certainly they are not worth fighting for

fantasies), I probably should also have included Macedonia and Bosnia-Herzegovina in Serbia rather than making them separate members of my imaginary "Balkan Union". I'm afraid I might not have noticed, however, that the fron-tier of Euskadi had been so

tier of Euskadi had been so drawn that it clearly includes the province of Navarre.

I should have been more careful. The FT after all prides itself on being a European newspaper. My "fantasy" stiracted attention in parts of Europe where national frontiers are taken very serionaly, and where its light-hearted nature was not automatically understood. I discovered not long afterwards that the long afterwards that the stricle, and more especially the map, had caused great excitement in Turkey — because I had suggested a "Turkic Union" in which the Turkish more line and the South speaking peoples of the Soviet Union and northern Iran might

is unhappy, especially if that region is on the edge of an existing state and next to a region in another state whe people speak the same lan-guage or believe they have the same national identity, then it will be more convenient to move the frontier than to move

hose conditions might well be fulfilled in south-eastern Turkey, unless the Turkish state becomes much more successful than it has been lately in mak-ing Kurdish people feel it belongs to them as much as to ethnic Turks.

But it was only last week that I realised that this wretched map had made me famous in the Basque Country as well. To be fair, I don't think this was mainly because of the mistake about Navarre, although that was certainly although that was certainly unfortunate. Navarre is the

Northern Ireland of the Basques: that is to say, it is regarded as one of the Basque "historic territories", but the majority of people now living there do not consider themselves Basques and have opted not to join the autonomous "Euskadi" as the Statute of Basque Autonomy entitles Basque Autonomy entitles them to do. The present Basque government, like the government of the Irish Republic, accepts that this decision can only be changed by free choice of the people concerned; but the terrorists of ETA, like the IRA, do not.

I had no intention of intervening in this argument at all, and still less of lending my support to any programme of terrorism or coercion. The same map showed Northern Ireland as still separate from the Republic, because I do not expect the Northern Irish to change their minds and my hypothesis ruled out the idea that they might be forced to do so. I don't know enough about Navarrese politics to be equally certain that there could be no voluntary change of heart in that case, but I certainly would not wish to pre-

What I did and do think was that if the process of European integration continues a time will come when it is no longer necessary for regions with a strong sense of national identity, such as Euskadi in its present frontiers certainly is, the European Community (or its successor organisation, which my fantasy had called "United States of Western Europe") mediated through one of the existing member

"Scotland in Europe" is to my mind a perfectly reasonable slogan, and one that should recommend itself to English Conservatives who think there are at present too many tiers of government — quite apart from the tactical point that a UK without Scotland, whether or not it still included Wales and Northern Ireland or was reduced to England, would pre-sumably have a more securely built-in Conservative majority than the present UK does.

On that point I agree with the Basque Nationalists, which explains the specially friendly welcome they gave ms — though I am sure they are very friendly even to those who disagree with them. But I am not sure they should attach such importance to my opinion; and I am waiting nervously for the news that a street has been named after me by mistake in Sarajevo, or that I have been burnt in effigy simultaneously in Antwerp and Liège.

### ERM: the wise and painful entry level

From No Clies Reating.
Sir, Simon Wren-Lewis's analysis of Britain's entry to

Sir. Simon Wren-Lewis's analysis of hrisain's entry to the exchange rate mechanism ("The danger of a high entry level," October 19) assumed that UK Mignest rates would fall to within 2 per cent of the German level when sterling joined, due to increased confidence in the currency.

Had this happened, then the rest of Professor Wren-Lewis's analysis would have required a low entry level.

As it is, UK interest rates after ERM entry are still more than 5 per cent above German levels and sterling's recent weakness suggests that further narrowing of the gap will take some time, Mr hispor chose a high entry-level and the market is suspectous about its sustainability. So interest rates will not fall rapidly and inflation will now fall rapidly and inflation will now fall instead of accelerating as it does in Professor Wren-Levi's low-entry-level, low-interest-rate scenario. Mr Major's choice of entry level is the wise one, although it means pain in the UK traded goods industries, initially a profits squeeze and then lower wage rises.

Gles Kesting, director Titchfield Street, Will From Mr Peter Robeson.

From Mr Peter Robeson. Sir, Simon Wren-Lewis won-ders why the government and the foreign exchange market did not accept the argument for a lower ERM entry rate for sterling. He posits four pessible

I would not presume to... speak for the government, but I would suggest that the mar-ket was not concerned with any of them. Its only concern .

and all and

....  investment in a currency with a high enough short-term yield to more than offset the currency unlimby possibility of an early downward realignment. Even this enthusiasm has scooled rapidly inside a plusiminus 5 per cant bend.

The scale of this initial rescitor and possibly of the market's eventual major sell-off (if that is not too cruel a pun) has been, and could be, that much greater simply because starting—unlike all the other non-D-Mark currencies in the ERM—is one of the main international investment currencies, it is this role which movimally is this role which inevitably complicates sterling's adher-ence to a fixed-but-adjustable aystem in a floating exchange rate world. Peter Robeson, Hoppisturgh, Norjolk

From Mr J.P. Warren.
Sir; Dongias Jay ("Fixed exchange rates and the lessons of history," October 10) gives the impression that Britain's the impression that kritain's prosperity since the First World War has depended on the successive devaluations of sterling to which he refers. I submit that all history proves otherwise, in that while devaluations can provide a short-term palliative for a nation's economy, their longer-term effect is always to term effect is always to increase the lack of competi-tiveness which makes them politically expedient.

Mr Jay is not alone in blaming Churchill for the deflationary hardships caused by the

1925 revaluation of sterling. There are, however, some, including myself, who believe that painful as its effects were, it served to protect Britain from the full impact of the 1229-1932 world slump, as suffered in the US. J.P. Warren,

### The Turks in northern Cyprus

From Mr Alper Falk Genc. Sir, Edward Mortimer ("More than one kind of linkage," October 16) shows an uncritical acceptance of Greek Cypriot allegations that northern Cyprus is "unlawfully occupied by Turkish forces".

The Greek Cypriots are, however, in no position to complain of breaches of law, for the ink was hardly dry on the 1960 independence constitution when they began to violate it. Having got the Turkish Cypri-Having got the Turkish Cypriots out of all positions in parliament and government, they would not let us back unless we accepted constitutional changes made unflaterally. In 1963 they ignored the Supreme Constitutional Court of Cyprus when it ruled against them. When we refused to bow to the pressure they launched a violent attack on Turkish Cypriot families at Christmas 1963, and many hundreds of men, women and childreds of men, women and chil-dren were killed in cold blood. The Foreign Affairs Commit-tee of the UK House of Com-

tee of the UK House of Com-mons reported (1987): "There is little doubt that much of the violence which the Turkish Cypriots claim led to the total or partial destruction of 103 of their villages and the displace-ment of about a quarter of the total Turkish Cypriot popula-

Representation, Turkish Republic of Northern Caprats, 28 Cockspur Street, SW1 Israel and UN Resolution 242 From Mr S. Goldman.
Sir, Robert Graham ("UN negotiates resolution on Israeli killings," October 11) makes a

rather important error when he refers to "Israel being asked to observe Resolution 242, calling for its withdrawal from the territory occupied in the 1967 Six Day War". In fact Israel was the only country which accepted Resolution 242 but it was rejected by all the Arab states. They rejected it because the resolution goes on to say "shall withdraw to secure and recognised borders". Israel would still be

242 and would be delighted to quit its defensive occupation of the West Bank and Gaza to

drawal of Iraq from Kuwait because Iraq already has secure and recognised borders if it agrees to withdraw behind S Goldman, Goldman Investments, 81 Stonegate Road,

retire to secure and recognised borders, providing its hostile neighbours agree to accept the main principle of 242. It is impossible to equate that situation with the resolution demanding the with-

### A challenge to economists: the interpretation of 'sustainable'

("Farmer's viewpoint," October 16) highlights how the word "sustainable" is being used by agribusiness to justify its continuation of present agricul-tural methods. Quite possibly it will be the interpretation and use of that word which

will lead us to, or away from, a Sir, David Richardson tolerable future for ourselves and following generations.

The interpretation of "sustainable" used by the Green party is quite straightforward.

It is the recognition that all

ecosystem than it can create and, at the same time, remain healthy, diverse and self-per-

petuating. In a practical sense it means returning all waste back to the soil, a system that if managed properly can carry on indefi-nitely. Current agricultural systems clearly do not meet

The challenge for economists is to marry ecology and eco-nomics so that running a sustainable business is ecologically sustainable as well Bernard Little. Agriculture Policy Group, Green Party, 10 Station Road, SW12

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Tuesday October 23 1990

# EC lifts sanctions against China and Iran

By Tim Dickson in Luxembourg

EUROPEAN Community foreign ministers yesterday agreed to lift sanctions against China and Iran, as well as restoring diplomatic relations with Vietnam. But Britain blocked moves to lift sanctions against Syria.

Diplomats said that a ban on arms sales and military co-operation imposed against China following the Peking massacres in June last year would remain in force, and that the Community would continue to raise its concern over human rights whenever

appropriate.
"We will continue to be vigi-

lant," Mr Gianni de Michelis, Italy's foreign minister and current chairman of the EC Council of Ministers, said at a press conference after the

meeting.
Mr Douglas Hurd, Britain's foreign secretary, said there was a general feeling that the EC and the rest of the world had "marked its abhorrence at that happened in Thananmen what happened in Tiananmen Square the summer before last. No useful purpose is served by reducing the level of contacts between the West and China. Such contacts are in the interests of the Chinese people as well as ourselves".

With Vietnam, individual EC countries already have links but yesterday's decision by the 12 as a whole will allow the EC to finance development projects and provide aid for Vietamese "boat people". Mr Hurd said that the deci-

sion had been easier as a result of "the new attitude to the boat people".

The EC imposed a series of political and military sanctions against China following the crackdown on pro-democracy demonstrators. These included the suspension of high level contacts, a reduction in cul-

cooperation and opposition to credits from the World Bank. It is understood that China's support for the West's cam-paign against Iraq was an important factor in yesterday's

Britain, however, drew the line at supporting Syria for similar reasons. Sanctions against Damascus were imposed in 1986 when the Syrians were linked to an abortive attempt to blow up an Israeli plane at Heathrow airport, London. Britain has already lifted its opposition to a new EC financial aid package for Syria but Mr Hurd said he did

stage. "The original obstacle was connected with state support for terrorism. I would like to get it out of the way but it takes two".

In practice, however, an EC ban on high-level contacts with Syria has effectively been

Mr Roland Dumas, the French foreign minister, said that few governments wanted to push Britain over its stand on Syria because of their con-cern over the situation in Leba-non, where Syrian forces now control the Christian sector of Belrut.

These suggested that an

Iraqi withdrawal from Kuwait could result in intensified west

ern efforts to resolve other

Middle Eastern problems, including the Palestinian prob-lem which lies at the heart of the Arab-Israeli conflict.

Mr Mitterrand.

# Shrugging off good news

Share price relative to the

FT-A All-Share Index

70

Yesterday's muted response to undoubtedly good UK trade fig-ures and a further collapse in the oil price shed a curious light on the market's preoccu-pations. What matters just now is the behaviour of sterling, which is developing a worrying tendency to slip below its central ERM rate. Given the provisional nature of the UK's ERM commitment, a bad set of trade figures could doubtless still put figures could doubtless still put sterling at risk. But yesterday's good figures were largely ignored by the currency market, so the equity market ignored them too.

Then again, the markets may simply have thought the figures too good to be true. The 8 per cent rise in export vol-

age of the second responsible to the second and the slowdown in the UK's export markets. The zero rise in imports, meanwhile, seems evidence that domestic demand is slowing down rather than collapsing. Granted, that can-not last either, assuming the ERM succeeds in its object of punishing companies and employees who pay themselves too much. But none of that is good for corporate earnings, a fact of which the equity market is fully conscious as it ner-vously awaits ICI's third quar-ter figures on Thursday.

### Tioxide

Cookson's deal with ICI on Cookson's deal with ICI on Thoride makes pretty grim reading. The price of £160m means Cookson remains more than 70 per cent geared after surrendering a holding which in good years contributed half its profits. It is also receiving a pitiable multiple of £2.7 times its profits. It is also receiving a pitiable multiple of 2.7 times last year's earnings for a business which in the late 1860s grew by more than 25 per cent a year. But ICI has its partner over a barrel. Not only are Tioxide's profits collapsing in the downturn of the cycle; the business also requires capital expenditure on a scale which Cookson might not be able to afford without breaching its loan covenants. loan covenants.

That same expenditure raises the question of how good the deal is for ICL The two parties differ hugely in their estimates; but splitting the difference, the bill for new capacity, closing older plant and converting the rest to cleaner technology would come to £450m between now and 1995. Even for ICL which has just cut next year's capital budget by 10 per cent to 2900m, that is a material sum to

commodity of the kind it is supposed to be getting out of. It could be that having gained control on the cheap, ICI means to sell Tioxide on. But the price Cookson is settling for scarcely suggests a surplus of huners

1980 82 84 86 88 90

The rest of Cookson is tricky the rest of Cookson is there to assess. At yesterday's 68p, the market values the business net of the cash receivable at under £90m. But the risk of Cookson now going under looks marginal. The business may not be recession-proof, but it has got rid of much the most volatile part of its earnings. And while profits remain hard to former this confidence the to forecast with confidence, the breaking of the link with ICI makes it more vulnerable to any predator attracted by nat asset value of over 1500 per

### Lucas Industries

The UK's motor components market fell flat on its face this market fell flat on its face this spring and summer, and in the rest of Europe 1991 is not going to be a year Lucas or its peer companies will want to remember. The hard thing is to work out whether 1992 is going to be any better. Financially Lucas is solid, as yesterday's annual figures showed: net gearing was 16 per cent and cash flow was positive even after tax. was positive even after tax, dividends and £136m of capital spending. Hence Lucas should have little trouble affording the £150m it plans to spend in the diesel engine equipment business over the next five years; and its dividend increase, at 12 per cent, still looks comfortably affordable. The trouble is that when many of a company's main markets are turning down, the historic figures are academic. In Lucas's small print yester-day was a 25 per cent fall in operating profits from its the UK automotive parts business:

whether Europe could go the same way. Even in services: where Lucas's profit margins edged up a point to 10.2 per cent, uncertainties creep in after 1993, even if civil prospects are very good until then. The shares yield 7.8 per cent now, which for the time being seems what they deserve.

### Oil prices

If the September rise of crude oil prices to \$40 per bar-rel was gravity-defying, then the return to earth in the past the return to earth in the past 10 days can at least partly be explained by the simple reversal of psychology. In retrospect, pradictions of a cycle of rising war premium followed by decline were right, but failed to anticipate how far prices would rise before the decline set in. Throw in the lagged effect of stepped-up oil production and the explanation of the fall back below \$30 per barrel. Iooks convincing enough.

There are other concerns behind the downward pressure on prices. Traders are worried that a long-term equilibrium price around \$25 per barrel might not be sustainable if the eventual return to normality of Iraqi and Kuwaiti production results in over-supply. No-one really doubts that the cycle of price volatility will continue, but though the price will doubtless jump again on the next war scare, there will not be the same number of forced buyers this time round.

### Hammerson

For the past year, the chief analytical task facing investors in UK property shares has been to work out which of the over-geared developers was going to hit the rocks. This may now be changing, Judging from some of Hammerson's interim comments, the challenge now is to work out which of the his four or five property investment companies have the strategy and the finances the strategy and the linances to play the vulture over the next two years.

In the last six weeks or so, Hammerson says it has started to see worthwhile opportuni-

ties in UK commercial property. Whether Hammerson, with \$700m of net debt already real estate, is the best-placed company to take the initiative is not quite so clear. At the moment, it looks as though British Land and Land Securities will have the edge in the coming months, with Hammerson and MEPC some

### Saddam agrees to free some US and UK hostages By Our Foreign Staff alluded approvingly to peace proposals put to the UN Gen-eral Assembly last month by

PRESIDENT Saddam Hussein of Iraq yesterday agreed to release a number of male US and UK hostages and raised the prospect of freeing all French nationals being used as

The Iraqi leader said his decision to release the British and US hostages was taken on "humanitarian grounds". His offer to consider the release of French hostages was made in response to what he called France's "rejection" of US

Last night, however, Paris rejected the Iraqi proposal. A spokesman for President Fran-cols Mitterrand said France would stand by United Nations resolutions demanding the release of all hostages. A Virgin Airways Boeing 747

carrying a team of doctors and nurses is due to arrive this afternoon in Baghdad to collect a number of elderly or sick male British hostages freed as a result of Mr Edward Eleath's

By Philip Gawith in Johannesburg

Congress yesterday agreed to a meeting between Mr Nelson Mandela, its deputy president, and Chief Mangosuthu Buthelezi, leader of South Africa's conservative Inkatha Freedom Party, its main black political

The move is seen as an important concession, enhancing prospects for an end to vio-

lence between the groups' sup-porters, which has claimed hundreds of lives in the past

three months.

The ANC had previously resisted such a summit, arguing that it would confernational legitimacy on Inkatha which the ANC considers to

have only limited regional sup-

port in Natal province.
The ANC's national execu-

The ANC's national executive committee, its chief policy making body, yesterday proposed a meeting with its inkatha counterpart "with the participation of Chief Mangosuthu Buthelezi and Mr Nelson Mandela" and "in the near future." Mr Mondela is every

future". Mr Mandela is cur-

rently on a visit to Australia.

THE African National ent with recommendations that Congress yesterday agreed to a meeting between Mr Nelson ship of the IFP for some time.

leave London at 10.30 this morning to arrive in Baghdad at 5.30pm local time. It will return directly and is due to land at Gatwick airport at

Mr Heath, the former UK prime minister, has handed Mr Saddam a list of 200 Britons whom he had argued should be released on humanitarian

grounds during three hours of talks with the Iraqi president. Efforts to agree a final list appeared to have run into difficulties last night as the Iraqi authorities haggled over who should be released.

Mr Saddam said he would also free a small number of elderly or infirm US men in response to a separate humanitarian mission to Baghdad — the latest in a series of individual diplomatic efforts since Mr Kurt Waldheim, the Austrian president, succeeded in bring-ing home 80 of his countrymen through a personal mission to Baghdad in August.

now". He said that the IFP would consider the details of the proposal when it was officially brought to their atten-

at ending violence between supporters of the two organise-

Natal for some years, and Transvaal townships since August 1990. Chief Buthelezi, who is also

the chief minister of the Kwa-Zulu black "homeland".

refused an invitation earlier

this month to meet Mr Mand-els together with other home-

land leaders, saying that only a

bilateral meeting between the ANC and Inkatha could help and the violence. He was also angered at being invited in his capacity as a homeland leader

rather than as leader of a polit-

ical party.

The groundwork for a mest-

ing between the two leaders has recently been established

"There is a definite commit-ment by the Iraqi leadership that some Americans will be released," Mr Salim Mansour, the head of an American-Iraqi Association delegation in Baghdad said yesterday. A number of Soviet, Brazil-ian, Spanish, Italian and

French hostages have also been freed as a result of indi-vidual diplomatic efforts. Mr Saddam nevertheless told Japanese television that he would continue to detain other western males in Iraq until "the threat of war against Iraq

ceases to exist".

The Iraqi leader has, so far, maintained his toughest stand against US and British hostages, linking their detention directly to each country's part in the military build-up against frag — the exception being his decision last month to release all US and British women and children trapped in Iraq and

A total of 1,450 Britons are held in Iraq and Kuwait, more

ANC agrees to Mandela meeting Buthelezi

than any other group of for-eign nationals. Some 380 Brit-ons are believed to be among the 700 western men held at strategic military and civilian installations in Iraq.
Mr Saddam has now made

pointed political use of his hostage card by raising the pros-pect that all male French hostages would be released in recognition of what he called "the free French people's rejec-tion of (US president) Bush's aggressive means and the use of arms against Iraq". Mr Saddam has asked the

Iraqi national assembly — the country's largely impotent par-liament — to debate the release of all 250 Frenchmen in the country as a gesture of appreciation towards France. The assembly will meet today. The French government said last night that the release of French hostages was "not negotiable", implying that no deal had been done with Iraq for their release.

Mr Saddam's statement

the Arab-Israeli conflict.

There was no indication and there was no indication and there were reports last night in Bagdhad that the release was being delayed by haggling over who should be freed.

Mr Saddam yesterday also agreed to free a small number of elderly or infirm US men held in Iraq, according to Mr to trige the humanitarian release of US nationals. of US nationals. Iraqi officials said they would reveal today how many Americans could leave. Background, Page 4; The real phoney war, Page 20

### Britain increasingly isolated on date for Emu

By Tim Dickson in Luxembourg

BRITAIN appears to be becoming increasingly isolated in arguing forcefully against a firm date for a further push towards European economic and monetary union (Emu).

At a meeting in Luxembourg yesterday, EC foreign ministers held a discussion on the so-called stage two of the process, at which only Britain raised the issue of the date, according to a European Com mission spokesman. Portugal and Greece have

volced some reservations about the second stage, which would see the setting up of a Euro-pean central bank and greater economic convergence, but Britain was alone at the weekend, when Mrs Margaret Thatcher, the British prime minister, told Mr Giulio Andreotti, her Italian counterpart, that she would not agree to set a date at next weekend's EC

summit in Rome. It was uncertain last night whether Mr Gianni de Michelis, Italy's foreign minister, would wish to force the pace at the Rome summit.

Yesterday, Mr Douglas Hurd, the British foreign secretary, essentially told his colleagues that substance on Emu (which is so far unclear) was more

important than timing.
Interest in the date has been fuelled by Chancellor Helmut Kohl's announcement last week that Bonn wants stage two to begin on January 1

The Luxembourg meeting considered a paper drawn up by the current Italian presi-dency of the Community, which appeared to support "some aspects" of Britain's alternative "hard ecu" route to

### **US** budget talks resume

continued from Page 1 package, approval will require a combination of a majority of House Democrats and at least half the Senate Republicans. This limits the negotiators' freedom of manoeuvre.

Although a deadline has been set for midnight tomor-

row - when the US government runs out of money again - the key discipline is the approach of mid-term elections two weeks away today.

but the real worry now is devote to an undifferentiated THIS ANNOUNCEMENT APPEARS AS A MATTER OF RECORD ONLY.



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### Chief Buthelezi responded by saying the proposal "is consist-German research institutes

'too pessimistic' Continued from Page 1 The motor of the west German economy is no longer exports

ticular from east Germany. But the institutes warn that

the west German economy is not as robust as it appears. They also warn of a potential price-wage spiral and say that wage negotiators should not attempt to win compensation for higher oil prices as a result of the gulf crisis.

but domestic demand, in par-

The next wages round in east Germany must link pay rises strictly to productivity rises and introduce much greater differentiation. In west Germany, too, union negotia-ters must be more modest in their demands as a result of their demands as a result of slower productivity increases, worsening terms of trade for exports, and sharper competi-tion in the labour market thanks to the inflow of east German workers.

• Mr Detley Rohwedder, the chief executive of the Treuhand, has estimated that east Germany industry has a value of about DM600bn. However, He also believes that the cost of cleaning it up will be considerably higher. Most of the latter cost will be carried by the

### in Natal, with the signing of regional peace accords and high-level meetings between the part of the IFP delegation about the behaviour of their members in the past. and accusations of had faith surrounding these issues. Britain's trade deficit shrinks

the parties. A meeting in Dur-ban last week was said to have

been conducted in a very good spirit and characterised by a high degree of self-criticism on

its smallest trade deficit since
April 1987 as the deepening
economic slowdown caused
imports to decline for the sixth successive month.

The September deficit of £850m (\$1.67bn), announced yesterday by the Government's Central Statistical Office, was much lower than expected and

While imports in the past three months have been at roughly 6 per cent below the levels in the first half of the year, exports rose in Septem-ber for the third month run-ning, further shrinking the monthly trade deficit.

This good news for the gov-ernment was tempered, how-ever, by the trend in export

Yesterday's figures showed that the volume of exports over the past three months, excluding oil and high-price, erratic items, showed a 1 per cent fall compared with the previous a particularly large decline. This fall underlined warnings from some sectors of UK industry that sterling's high

in September was a seasonally adjusted £8.6bm, up 2.5 per cent on the August figure of £8.6bm. Imports declined during September, from £9.8bm in the previous month to £9.5bm in the

. Mr John Maples, economic secretary to the Treasury, said on BBC Radio that the govern-ment's policies were working. Rising exports and falling imports were "the kind of trends we want to see".

The ANC executive also welcomed progress with the government over the release of

political prisoners and the

return of exiles. This appears to end a period of squabbling

For the Labour opposition, Mr Gordon Brown, the party's

The trade figures, amounced at mid-morning, buoyed up the pound, which had earlier slipped. Against the German currency, sterling closed 1 prenning up at DM2.9550, while against the dollar it finished the day at \$1.9490, down 1 cent.

Export threat, Page 12; Wor-ries dent ERM euphoria, Page 21; Markets, Section II

By Peter Marsh in London

BRITAIN last month enjoyed

volumes over the whole of

marked the first time this year that the monthly deficit has been less than film.

monthly trade deficit.

value within the European exchange rate mechanism is harming companies' international competiveness. The value of visible exports

vious month to £9.6bn.
The Central Statistical Office estimated that invisible trade

current secount deficit. For the three months to September, Britain was £3.8bn in deficit in the current account, compared with £5.1bn in the previous quarter. For the first nine months of 1990, the cumu-lative deficit stands at £13.6bn trade and industry spokesman, said Britain's trade figures remained the worst in Europe. He called for new government initiatives to boost manufac-

# as economic slowdown deepens

Chief Buthelezi: only a hilateral meeting would be acceptable

- services, dividends, interest and various transfer payments - was in balance in Septem-ber, making Britain's trade deficit last month the same as the

Britain's trade performance in September was helped by a £200m surplus on its oil trade, a figure which was £100m above the level for August and which resulted from higher oil

prices caused by the Gulf cri-

and is likely to reach about £15bn for the whole of the year in line with government forequarter.

Manufactured items suffered casts, compared with a record £19.1hm in 1989. WORLDWIDE WEATHER

071-355 1000



INSIDE

### **Union Carbide falls** 35% in third quarter The Gulf crisis has dealt



a sharp blow to thirdquarter income at Union Carbide. The chemicals group suffered a 35 per cent drop in net income as rising oil prices pushed up the cost of its raw materials. However. chairman Robert Kennedy (left) pointed out that the effect of rising oil prices had been mittgated by improved sales volumes and strong performances in some

Turkey's troubled private life

Since its birth in 1984, Turkey's privatisation programme has been beset by problems beyond the authorities' control, from the stockmarket crash to the Gulf crisis. Some bankers believe the scheme could provide a serious digestion problem for Istanbul's still emerging stockmarket. But tomorrow the programme gets back on the rails, reports John Murray Brown. Page 24

Tapping the Orinoco



The unrest in the Gulf has triggered another hunt for alternative, and stable, sources of energy. Technical scrutiny has fallen again on finding productive uses for Venszuela's vast black oil-tar deposits in the Orinoco river basin. With half the world's recoverable oil reserves in this super-heavy category, the oil industry may be faced with a significant technological development. Page 32

Dogfights over Korea

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The South Korean removal of restrictions last year and the 1988 Olympics, has turned into a victous doglight

between Koreag Air and the fledgling Asiana Airlines. Posching of pilots and bitter compet-tion has intensified as the Korean government decides how to divide routes between the two

Riddle of al Rayan buyer

The latest stage in the long-running Egyptian financial scandal has seen approval for the takeover of the alling al Rayan investment company whose owners were accused of defrauding investors of \$716m. But the identity defrauding investors of \$716m. But the identity of the new Egyptian owners has not been discussed. Many of the 187,000 depositors who invested their life-savings in al Rayan during the 1980s are already complaining that they will be repaid at the exchange rates prevailing in 1988 — the year the company's activities were frozen. Page 28

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# Philips and Du Pont end CD joint venture

PHILIPS of the Netherlands and in-house manufacture of the Du Pont of the US are to unravel their four-year-old joint venture for the manufacture of compact discs (CDs) and professional discs. Philips will acquire the consumer side of the business and both partners will dispose of the venture's professional disc

operations.

Philips intends to sell parts of the consumer disc operation — which includes CD manufacturing plants — to PolyGram, its London-based, 80 per cent-owned recorded music subsidiary.

The ending of the joint venture of the sending of the joint venture.

follows a restructuring of Philips's semiconductor and com-puter divisions, which will result in the loss of 8,900 jobs. Philips said earlier this month that it would develop computer systems based on its expertise in profes-

sional disc technology.

Philips denied that yesterday's move meant it was abandoning professional discs. It was, how-

discs, which until now has been the joint venture's most heavily loss-making area. These products are used for data storage by pro-fessional users in the business, legal and medical fields.

Analysts welcomed Philips's

decision to end in-house manufacture. They said it was in line with plans announced by Mr Jan Timmer, the group's president, to concentrate on profitable areas and either pull out of loss-making hysinesses or buy in supplies

businesses or buy in supplies from other manufacturers. Philips said the two partners had decided to disband the joint venture because growth on the professional side had not met expectations and because Du Pont had little interest in the consumer applications of disc technology.

The joint venture with Du Pont

employs 3,600 people in Europe and the US and posts annual sales of \$325m, of which the consumer side accounts for \$250m.

The consumer business, with 3,000 staff, is profitable but these profits have been more than offset by unspecified losses in the smaller professional sector.

The joint venture has three professional sector.

European manufacturing plants for CDs - in Hanover, Germany; Blackburn, UK; and Louviers, France. It also has a US factory in Kings Mountain, North Caro-lina. PolyGram has not said how many of these operations it would like to acquire. Manufacturing facilities for professional discs are concentrated at Philips headquarters in Eindhoven.

For PolyGram, the purchase of the consumer business would mark its return to in-house CD production. It formerly owned the German plant before selling it to Philips in 1986.

Mr David Fine, Polygram's president, said that controlling a significant portion of its own disc supply could have big advantages for the group given the large scale of manufacturing demand.

Yet, despite these now evident

drawbacks, up to 40 dealers were

aggressively pushing the product to all types of borrowers from 1985 onwards. More than a quar-ter of the hundreds of CP fund-

raising programmes announced

are now moribund as investors emphasise quality.

having increased recently, are still paper thin. A dealer tradi-tionally makes his money

tionally makes his money through the turn, the difference between the price at which he buys or sells the paper. Dealers reckon the turn averages about 3 basis points a year. If the paper carries a one-month maturity, this means it has to be placed 13 times to earn that fee.

With outstandings in European CP starnating at about \$70bm.

\$21m. The rewards in

sterling commercial

paper, where paper out-

standing amounts to just over 25bn, are even

smaller.
Not surprisingly, dealers have been withdrawing. Late last year, Merrill Lynch, one of the

largest dealers, pulled

The rewards to dealers, while



Michael Henderson: denied deal was at a knock-down price

# Tioxide stake to ICI

COOKSON, the heavily indebted British industrial materials group, has agreed to sell for £180m (\$314m) its 50 per cent stake in Tioxide, the pigments manufacturer, to KI, its partner in the joint venture.

Last year, Tioxide made a pre-tax profit of £200m on sales of £700m. Therefore the price paid by ICI is only 2.4 times historic

earnings.

The first reaction of some analysts was to call the deal a distress sale at a knock-down price. But Mr Michael Henderson, chairman and chief executive of Cookson, rejected that descrip-tion. He said Cookson had several reasons for selling the stake now, as part of its programme of cutting borrowings.

 Toxide faces a capital expen-diture programme of several hun-dred million pounds over the next five years, to strengthen its environmental controls and The decline in Tioxide's trading performance this year "has been unexpectedly severe".

• The longer term outlook for

the titanium dioxide business in the 1990s has also deteriorated significantly. This would "neces-sitate a major cost reduction programme at Tioxide together with a write-down of assets". The deal will increase ICI's

exposure to cyclical bulk chemicals — contrary to the group's stated long-term policy of focusing increasingly on specialist products that are less affected by the business cycle.

But ICI sources said that the

opportunity to acquire sole con-trol of Tioxide for only £160m represented an irresistible bar-

gam.
"There's a price at which ICI are prepared to invest in a cyclical business," said Mr John Reynolds of Schroders, the merchant bank advising ICI. "And there's a difference between buying in 50 per cent of a joint venture and buying an entirely new business."

Mr Revnoids said the deal was "sarnings neutral for ICI at this stage of the cycle". The benefits would accrue to the profit and loss account later on, he said. "It does look as though Cook-son's hand was forced," said Mr David Ingles, chemicals analyst at James Capel. "ICI have got Tioxide very cheaply indeed. But Cookson will feel more comfort-able after the disposal. I think they will seek further disposals there are some metals businesses which are not core holdings — and this will give them the confidence to negotiate more toughly."

### Polly Peck pins hopes on Nadir for last minute escape

By Clay Harris, Richard Waters and Stephen Fidler in

POLLY PECK International now accepts that administrators could be appointed tomorrow unless Mr Asil Nadir, the chair-man, engineers a last-minute

escape.
Mr David Fawcus, deputy chief executive, admitted yesterday that Mr Nadir needed to obtain £30m (\$58.5m) in cash from northern Cyprus on his current visit if Polly Peck were to hold

Banks on the steering commit-tee co-ordinating Polly Peck's creditors said yesterday that their patience with the company was exhausted. The company had outstanding borrowings of more than £1bn at the end of September.

Polly Peck had also failed to produce the cash from Cyprus that it had promised when the creditors agreed on October 12 to creditors agreed on October 12 to extend a standstill on debt repayments until November 9. That had hardened attitudes among banks which had previously been content to allow it more breathing space.

One member of the steering committee described Polly Peck's position as "as had as you can possibly imagine. If something substantial doesn't happen. by

substantial doesn't happen by Wednesday, then that's pretty much the end of it."

Mr Fawcus, however, was not ready to despair: "It depends on how much money comes in," he said. "If the banks see money coming in, their position is going to change."

Asked how much money was needed to stave off administra-tion this week, Mr Fawcus said:
"The figure is not specified, but it's somewhere around \$50m to \$50m (£25,6m to £30,7m)." At a meeting yesterday morning, the steering committee of nine banks and Legal & General,

the insurance company, agreed to delay any action until later in Administration, an insolvency procedure involving the appointment of independent administrators to run the group, would give Polly Peck protection from its

creditors long enough to allow for a reorganisation of the com-pany or an orderly disposal of its businesses and marks.

Polly Peck owns the US-based Del Monte fresh pineapple and bananas business, other fruit-trading operations, consumer electronics companies in the Far East and Turkey and hotels in northern Cyprus and Turkey. Hawks gather, Page 30

# Companies lose way in Cookson to sell commercial paper chase

HE ANNOUNCEMENT by SG Warburg, one of the largest dealers in commer-cial paper, that it is pulling out of the London CP market is another sign of the stagnation that has hit one of the more esoteric of London's financial businesses. It underlines a narrowing in

It underlines a narrowing in the financing options facing companies which have become accustomed to seeking ahort-term liquidity through leaving these corporate IOUs.

The beneficiaries of this change will be the commercial banks. They are already finding that some of their less-highly rated customers can no longer issue commercial paper and are returning to them for more returning to them for more short-term funding, rather than to the anonymous CP market.

This may be no bad thing. In several recent cases, including the financial crisis at Polly Peck, the stricken UK fruit trading stricten uk iruit trading concern, dependence on commercial paper has increased a company's financial vulnerability. In the commercial paper market, short-term corpo-

rate IOUs are sold to investors through a group of securities firms and banks. The rapid growth of such markets in Europe during the 1980s followed the discovery that companies could often borrow more cheaply from the securities and paper markets than they could from

their traditional bank lenders. Both in the unregulated Eurowhere US dollar paper trades out-side the control of the US authorities — and in the sterling com-mercial paper market, opened by the Bank of England to a limited group of borrowers in 1986, there was less emphasis on the credit quality of the borrowers than in

The US emphasis on credit quality stemmed from its experience of the painful consequences of default in the commercial paper market. As a result, only issuers carrying a rating from a recognised agency can use the US market; and only then if there is a standby bank credit in case, for

whatever reason, investors decide to shun the paper.
In contrast with the US, much of the commercial paper sold in Europe, particularly for lower-quality issuers, was being placed with banks. The CP market con-tributed to a general loosening of relationships between companies their bank lenders.

Long-standing links between banks and their corporate clients were breaking down to be replaced by transactional bank-ing, where a company did busi-ness with the financial institu-tions which offered it the lowest cost. Lending costs were pared to levels at which it could not be economic for banks to lend.

economic for banks to lend.

Most blue chip companies may not notice the tightening of credit quality criteria in the CP market, except perhaps for a modest rise in the cost of funding. But many others, particularly those labouring under heavy debt or those which have been less cautious in their horrowing programmes. their borrowing programmes, may suffer significantly. According to bankers familiar with the company, Polly Peck

International is an example of one borrower which followed

CP stagnating at about \$70bn, total annual gross income to all dealers is as little as Stephen Fidler looks at the stagnation of one of London's most esoteric financial markets

roll over the paper when it This would not have been allowed in the US. In the event,

quits legal but sloppy practice in its commercial paper programms. For example, the company failed to establish a standby line of credit in case investors refused to

Polly Peck had £46.5m (\$90.8m) of paper outstanding when a debt standstill was declared by the banks late last month. One result is a proliferation of creditors who are holding this paper, any one of which may decide to insist on its legal rights and pull the plug on the company. The company's problems have not been helped either by the lack of one or more banks with close ties to the com-

cial paper holders are at a poten-tial disadvantage to other credi-tors, who can lay claim to interest payments which stack

out. The announcement that Warburgs, the UK merchant bank, is to withdraw will proba-

the business," says Mr Mike Niedzwiecki of Citicorp, a leading dealer in the business. ommercial paper markets

The Polly Peck bank lending standstill has brought up other issues. Because the paper is usually issued at a discount and redeemed at face value, commer-

Since commercial paper investors are usually unsecured and often have small amounts at stake, their interest in keeping a company affoat may be weaker than for larger bank creditors.

bly set other dealers thinking.
"The fact that a dealer with the visibility of Warburgs is pulling out is going to make others con-sider whether they want to be in

> in Europe are beginning to look more and more like their US counterpart. Only borrowers with suitable credit ratings and standby credits to back up their programmes are likely to find the market a reliable funding source.
>
> Many companies, from the UK

and elsewhere, have aiready been forced to find alternative sources of funds; still others will be forced to. A lot are now trying to tionships. All this may happen without disrupting a company's access to credit, or it may not. There is no sign either, despite the US experience, that the CP markets are going to be the flash point for financial crisis. None the less, the limitations of yet another financing fashion that

# Lucas in £150m diesel investment

By Paul Cheeseright, Midlands Correspondent

LUCAS INDUSTRIES, the UK hold the share price down to supplier of systems and components for the aerospace and automotive industries, is to invest industries, is to invest industries. nents for the aerospace and auto-motive industries, is to invest £150m (\$297m) over the next five years on manufacturing plant in France, Spain and the UK for die-

sel engine injection systems. The announcement yesterday from the Midlands-based company came against the back-ground of annual figures flattened out not only by the problems of the motor market but by currency movements and the uncertainties springing from

the Gulf crisis. Pre-tax profits for the year to last July were just 2 per cent higher than a year before at £191.2m on a turnover up seven per cent at £2.33bn. The figures were within the broad range of market predictions but shivers of concern about the prospects for the current year were enough to

shield it from the problems of the UK economy. The main issue for its aerospace business is not the level of demand but fulfilling the orders it already has on its books; the group expects the mar-ket in its current phase to peak

But on the automotive side, falling car registrations in the UK, France, Italy and Spain have put the market in the doldrums. The solace for Lucas is the resumed growth of diesel engine sales where it has invested heavily in the development of new fuel injection systems.
Its factory investment proincrease demand for its injection systems. In the UK, a new plant at Stroud, Gloucestershire, will provide 380 new jobs with the next five years.

Although the high level of ster

ling adversely affected Lucas' £381m UK exports in the last financial year, the group is relaxed about the UK's adherence to the exchange rate mechanism of the European Monetary System. "We have no complaints, mainly because to have any would be futile. At least, we can be reasonably sure what exchange rates will be," said Mr

Eric Gill, the chairman. The main concern now is the fluctuation of the dollar, the currency in which aerospace sales are denominated. Last year currency fluctuations cost Lucas 227m in sales and £1.5m in pretax profits.

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THE GLOBAL FUND RANGE OF THE 1905



By Martin Dickson in New York

UNION CARBIDE, the chemicals group, suffered a 35 per cent drop in third-quarter

The figures included the cost

The figures in August at net income as increasing oil prices in the wake of the Gulf crisis raised the costs of its raw materials.

The company reported net income of \$91m compared with \$139m in the period last year, on net sales of \$2.2bn, up from \$2.14bn. Earnings per share were 63 cents, down from 98

Mr Robert Kennedy, chairman, said the effect of rapidly increasing oil prices had been mitigated by improved sales volumes in chemicals and plas-tics, raw material flexibility and a continued strong performance by the industrial gases

But he warned that "additional feedstock cost increases, coupled with general economic weakness, will result in further

of a loss of power in August at one of the company's US plants, which is estimated to have clipped 4 cents from earnings per share.

There was a 9 cents-a-share gain from the sale of a polysili-con business, partially offset by non-recurring charges total-ling 7 cents a share from cost reduction programmes. Third-quarter 1989 earnings included a non-recurring gain of 5 cents

Operating profits in the chemicals and plastics businesses, which suffered reduced selling prices as well as higher raw materials costs, dropped from \$235m to \$168m on sales little changed at \$1.34bn. Industrial gases saw profits increase to \$118m from \$76m on sales up to \$692m from

### **BCP** confident of winning CISF as deadline passes

**BANCO Comercial Portugues** (BCP), Portugal's leading pri-vate bank, said it would not vate bank, said it would not raise its offer for a controlling stake of CISF, the country's second-biggest merchant bank, as the deadline for changing the bid ran out yesterday.

The move signalled that BCP was confident its offer would be accepted by shareholders

be accepted by shareholders representing at least 43.5 per cent of CISF's capital, the minimum required for the bid to go

If sufficient sale orders are placed by November 5, the pub-lic bid session will be held on the Oporto Stock Exchange on

November 8.
BCP. Portugal's largest quoted company, also announced yesterday a 103 per cent increase in pre-tax profits to Es13.2bn (\$95m) for the first nine months of 1990. Cashflow increased 93 per cent to Es17.1bn. Earnings per share increased 38 per cent to Ea199.4.

Mr Jorge Jardim Goncalves, chairman, said the bank planned to extend its branch network from just more than 100 branches to about 170 by

Observers see BCP's bid for CISF, which has played a prominent role in Portugal's privatisation programme, as an attempt to find a short cut into the corporate financing and privatisation markets, given that attempts to foster merchant banking within BCP's corporate structure have

proved unsuccessful.
Some CISF shareholders
have expressed dissatisfaction
with BCP's offer price of Es2,350 a share — a premium of 20 per cent on the last quotation of CISF stock on September 14. Shares were withdrawn from trading following BCP's

However, analysts calculate that many of CISF's shareholders will accept as an opportu-nity to realise capital gains.

### Sasib moves to third in world rail signal league

By Haig Simonian

SASIB, the fast-growing industrial group controlled by Mr Carlo De Benedetti, has bought General Railway Signal (GES), the railway and underground transport signaling subsidiary of General Signal of the US.

nai of the U5.

The deal means that Sasib, which is also active in the food packaging sector, will more than double its sales in the

than double its sales in the railway signalling business, becoming the world's third-biggest supplier.

The acquisition will boost the strong position of Italian companies in the sector, following last year's purchase by Ansaldo of Union Switch and Stemal.

GRS, based in Rochester, New York, has almost 30 per cent of its domestic market cent of its domestic market and about 40 per cent of that for mass-transit systems. It is also strongly represented abroad through subsidiaries in Holland, China and the Far

Sales this year are expected to exceed \$80m. Recently, the company won a \$50m deal to supply signalling equipment for a new underground railway system in Taiwan.

The deal will further push Sasib's group sales, which are set to reach at least \$500m this year.

No price has been disclosed for the deal, on which Sasib was advised by Wasserstein

### **Insurer on course** to meet forecast

UNION des Assurances de Paris (UAP), the French state-controlled insurer, yesterday reported a 35.1 per cent rise in first-half attributable net profit to FFr3.34bn (\$540m), Reuter reports. UAP said the forecast it gave in spring of a 25 per cent increase in 1990 profits from FFr3.42bn in 1989

remained valid.
Consolidated turnover which covers only UAP's insurance and reinsurance business - was FFr49.4bn, a rise of 57.5 per cent from the

# Turkish privatisation train rolls once more

Problems have stalled the sell-off plan which began in 1984, writes John Murray Brown

urkey's stalled privatisation programme gets back on the rails tomorrow with the sale of the first of three small cement companies, which together are expected to

mr Okkes Ozuygur, chair-man of the government-run Public Participation Fund which co-ordinates the privatisation programme, says the offer will test market confidence prior to the proposed sell-off of Turk Hava Yollari, the state airline, this year and a global offering of Petkim, the petrochemicals complex, planned for 1991. Shares in Konya Cement

Factory go on sale today, followed by the Unye and Mardin cement companies in early November. The state's majority stake in the companies will be

sold under a public offering, handled by more than 500 bank branches throughout Turkey. The authorities are adopting a cautious approach. A court case is still pending over the

1987 decree on privatisation which gives priority to domeswhich gives priority to domestic buyers. The French company is appealing. Mr Ozuygur insists it is a technical problem which will not frighten off foreign investors.

Since its beginning in 1984, Turkey's privatination has been beset by problems beyond the authorities' control, from the world stock market crash in 1967 to the Gulf crisis. Some

French group.

mented could provide a serious digestion problem for Istanbul's emerging stock market. Turkey's 55 state enterprises dominate the economy, accounting for about 30 per cent of industrial output in

controversial block sale last year of five cement companies to Ciments Français, the In April, Turkey's administrative court upheld a suit from opposition members of parliament ruling that the sale contravened the terms of a

Okkes Ozuygur: sales have

in 1967 to the Gulf crisis. Some bankers believe the scheme is too ambitious, and if implelic investment. They cover everything from public utilities to trading and banking. The companies are notoriously inefficient and overstaffed. According to the latest Treasury figures, the state enterprises recorded losses of

TL53.2bn in the first six months of 1990. The impact of privatisation on the Budget so far has been marginal. Mr Ozuygur says the programme has raised TL1000bn since the start of 1990. The proceeds are chan-nelled by the PPF into infra-structure work such as housing. But the funds are not

included in the Budget, and economists argue they merely fuel the budget deficit. The programme has not been universally popular with the public either. This month the PPF had the galling experience of having to buy back some of the 8 per cent of Petkim stock it sold through a public offering last June.

ing last June.
Officials confirmed that the fund bought TL100bn worth of shares just to maintain the original offer price, after bond-holders with share options dumped stock on the market. Also this month, the stock exchange briefly suspended trading in Cukurova Electrik,

another recent flotation. Heavy buying started after rumour that the company was about to revalue its dams and other revalue its dams and other assets, a common practice for Turkish companies trying to keep abreast of infistion. On this occasion, however, the Ministry of Finance intervened, saying the dams supply.

ing the company were govern-ment property.

The PPF's next task is to sell the giant Sumerbank corpora-tion, which makes and sells textiles, ceramics and shoes. Following a report by the stockbroking firm Barclays De Zogte Wedd, the PPF is exper-

Zoete Wedd, the PPF is expected to privatise the group's retail outlets and sell some of its property.

The main challenge will be finding a home for the holding company, which with \$7,000 amployees would dwarf any private Turkish group. As with Petkim and the large cement companies, the PPF will probably end up looking for a foreign buyer.

### Milan bank buys 5% of Continental

By Halg Simonian in Milan

ANOTHER 5 per cent stake in Continental, the German tyres group currently subject to a takeover proposal by Pirelli, the Italian tyres and cables group, is now in hands sympa-thetic to Pirelli.

Sopaf, a small Milan mer-chant bank controlled by Mr Jody Vender, said yesterday it had bought 5 per cent of Conti-nental's stock for L99.4bn (\$84.9m) during this month. Earlier in October, Mediob-anca, the powerful Milan mer-chant bank which has regu-larly advised Pirelli, said it had spent L104bn to buy a similar

Pirelli has said its merger is supported by a majority of Continental's shareholders, although it has yet to provide details.

details.

Nevertheless, with its own 5 per cent and the 1 per cent in Continental held by Merrill Lynch, which is also advising Pirelli on the deal, 16 per cent of Continental's stock is now known to be in hands sympathetic to Pirelli's plans,

# Inco earnings fall by a quarter

LOWER nickel prices, a fall in shipments and greater produc-tion costs pushed earnings of Inco, the world's leading pro-ducer of the metal, down by almost a quarter in the three months to September 30. Net earnings of the Toronto-based company slid to US\$97m

or 92 cents a share, from \$129.3m or \$1.23 a share a year earlier, Operating earnings fell more sharply to \$199m from \$274m. Sales were down to \$763.6m from \$848.7m.

By John Burton in Stockholm

Swedish property and construction group, yesterday reported a 45 per cent fall in profits after financial items to

SKr432m (\$74.8m) for the first eight months of 1990, while sales rose by 2 per cent to

Nordstjernan blamed the

lower profits almost entirely on poor results from its subsid-

iaries, such as the stainless

steel manufacturer Avesta, the

NORDSTJERNAN.

The average price realised for primary nickel fell to \$4,46 a lb, down from \$5.28. The average price for the first nine months of the year was \$4.03 a lb, down from \$5.96. Nickel deliveries fell to 116m lbs in the third quarter, from 120m lbs a year earlier. Nine-month deliveries were down to 364m. lbs from 380m lbs. Inco also produces gold, sil-

ver and platinum-group met-als. Increased precious metal prices partially offset the set-

Nordstjernan slips despite higher sales

department store NK and the industrial concern Kamyr, that

are outside the parent group. It predicted that profits for 1990 will be lower than last year's

Extraordinary income smounted to SKr528m due to the sale of its subsidiaries,

Databolin and Hedemora Sepa-ration, and the merger of the Johnson passenger line with

Finnish ferry group Effoa. The

new Effiohn company yester-

figure of SKr1.1bn.

back in nickel earnings.

There was a sharp fall, to \$5m from \$19m, in operating earnings from alloys and engineered products, ascribed to reduced deliverles and lower prices. Earnings in 1989 were

boosted by a gain of \$5.8m from property sales.

Nine-months earnings dropped to \$368.6m from \$601.3m, including a secondquarter gain of \$112m from the sale of a 20 per cent interest in Inco's Indonesian subsidiary.

day reported a 42 per cent decrease in profits after finan-cial items to SKri98m for the

Nordstjernan is restructur-

ing, increasing activity in the

construction and property sec-tor while divesting in non-

property areas, its construction division NCC had a profit rise of 10 per cent to SKr504, while earnings from its property holdings increased by 31 per cent to SKr71m.

eight-month period.

cent to SKr71m.

### Esab ahead by 14% to SKr273m

By Robert Taylor in Stockholm

ESAB, the world's leading welding equipment maker, yes-terday announced a 14 per cent improvement in profits after financial items for the first nine months of the year to SKr278m (\$47m) from SKr239m in the same period of 1989.
Orders rose by 42 per cent to SKr5.29bn while invoiced sales increased by 50 per cent to SKr5.24bn.

The company said it expected results for 1990 to be lower than last year when they rose by 46 per cent.

It pointed out that the 1989 performance was lifted in part by particularly good results from Brazil during the fourth

quarter, Esab also pointed out that the outlook for welding and grinding equipment in Europe was mixed with strong demand in central and southern Europe with a weaker performance in Britain, Finland and Sweden, It added that the US market had been stable.

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### **Fluor Corporation**

\$350,000,000 Revolving credit facility

Funds provided by Citibank, N.A. Morgan Guaranty Trust Company of New York Security Pacific National Bank

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Co-agents Citibank, N.A. Morgan Guaranty Trust Company of New York

September 1990

### INTERNATIONAL COMPANIES AND FINANCE

### Reebok **falls 18%** in third period

By Karen Zagor in New York

REEBOK International, the sports shoe maker in which Pentland Industries of the UK holds a 31 per cent stake, yesdecline in third-quarter net income to \$41m, or 36 cents a share, from \$49.9m, or 44 cents a year earlier. Sales were \$588.9m, against \$524.5m a year

ago. Mr Paul Fireman, chairman and chief executive, said the results "were slightly better than previously estimated due to higher shipments than anticipated at several divi-sions, but especially at Reebok's International division. The decline in US sales of Ree-bok brand footwear was also somewhat less than expected."
In September, Reebok said it expected third-quarter per-

share earnings to fall to between 33 and 35 cents, reflecting lower US sales and higher advertising and promotional expenses. Shares in the company, which were unchanged at \$10%

at mid-day yesterday, have fallen sharply since June. when they were changing

hands at about \$18.
At that time, Pentland said it would sell its stake in Reebok. However, when Reebok's stock fell to about \$13%, Pentland decided not to market the block until Reebok's share

For the first nine months ended September 30, Reebok's net income slipped 2 per cent to \$137.1m or \$1.20 a share on sales of \$1.67bn from \$140m or \$1.23 on sales of \$1.44bn last

### Flat quarter for Marsh & McLennan

MARSH & McLennan, the world's largest insurance bro-ker, yesterday reported third quarter net income of \$74.6m, virtually unchanged from the \$73.5m made in the same period of 1989, writes Martin Dickson in New York.

But the company, which has been suffering from a pricing downturn in the property-casu-alty industry, said that while premium rates ranged from flat to downward, price stability was approaching.

Revenues in the quarter rose from \$607m to \$682m, with insurance services sto from \$346.1m to \$379m, while the group's increasingly important consultin \$192m to \$231m.

# Time Warner held back by expenses of merger

TIME WARNER, the debt-laden media and entertainment conglomerate that controls Time Magazine and Warner Brothers in Hollywood, yesterday unveiled a \$91m third-quarter

loss, against a pro forms loss of \$124m last time. This brings the total losses for the first nine months of 1990 to \$193m on nine-month revenues of \$8.2bm. The loss per share in the lat-

The company continues to have underlying profitability from its film, recorded music, cable television, publishing and other interests, but is saddled with a \$10.8bn debt bur-den that keeps the company in loss at the bottom line. The debt relates to last year's merger of Time and Warner and continues to be a drag on the company, which

has been charging off related interest expenses and amorti-sation costs each quarter. Mr Steve Ross, chairman of Time Warner, has tried to put a brave face on the debt problem, but the company's share price yesterday was just \$70%, which while up by \$1% is still a far cry from the 1990 trading range of \$133 to \$213 made by Time Warner's investment bankers at the time of the

merger.
The company is exploring ways of raising cash by forming joint ventures in the cable or film production business with European and Japanese partners.
Profits before interest, taxes, depreciation and amortisation amounted to \$546m in the third quarter. Total third-quarter

Operating income from the magazine division was \$38m, down from \$41m on a pro-forma basis for last year; the company said advertising and circulation was higher this year and attributed its lower profit to substantial start-up costs at Entertainment Weekly, a new downmarket entertainment magazine. The filmed entertainment

business provided a record \$140m profit, up by 36 per cent year-on-year and helped by domestic revenues from films such as Presumed Innocent. The recorded music division turned in \$109m of operating profits, against \$108m last year. Cable television produced \$198m of profits, up by 20 per cent, while the HBO pro-gramme division had slightly higher earnings of \$45m

### revenues were \$2.9bn, against \$2.66bn on a pro forma basis. Warner back in Pathe picture

By Alen Friedman

MR GIANCARLO PARRETTI. the controversial Italian financier who has until today to complete a \$1.3bn takeover of MGM/UA, the Hollywood studio, was yesterday producing yet another cliffhanger in the seven-month corporate seven-month corporate

were abuzz with rumours of a frash delay by Mr Parretti as it emerged that Warner Brothers had stepped back into the pic-ture to negotiate a global home video rights deal with Mr Parretti's Pathe Communications, the vehicle for the MGM/UA takeover.

News of the possible return of the Time Warner media and entertainment group came after Turner Broadcasting, the Atlanta-based cable empire. agreed on Sunday to pay an estimated \$200m to Mr Parret-ti's Pathe Communications to license for television about 1,000 films in the UA library of

The 10-year Turner deal is a partial substitution by Mr Par-retti of Time Warner, which last July backed out of plans to put up \$650m in loans toward the MGM deal in exchange for world distribution rights to the UA library. The Turner transaction, sub-

ject to Pathe's consummation of the MGM takeover, complements Turner's 1966 purchase from Mr Kirk Kerkorian, who owns majority control of MGM/ UA, of 3,300 titles from the MGM library. Time Warner owns 17 per cent of Turner Broadcasting
Time Warner in July
launched a \$100m lawsuit
against Pathe, alleging breach
of contract and breaking off its
plan to lend Mr Parretti's con-

pany \$650m for the MGM deal. Pathe counter-sued for \$500m, but executives close to the company say the lawsuits would be cancelled if a deal is completed involving the UA library and Warner's home ideo division.

Pathe has already paid some \$353m toward the MGM/UA takeover, most of it as a non-refundable deposit on the acquisition. Some \$4 per share
of a total \$21.50 per share
takeover bid — has been paid
out to MGM/UA shareholders.

# Steady three months for Arco

ARCO, the Los Angeles-based oil and gas company, yesterday mivelled essentially unchanged third-quarter net earnings of \$382m after stripping out spe-cial environmental charges and one-time gains relating to the sale of assets and an acci-dent settlement.

The company's third-quarter net of \$2.79 per share was \$462m, compared with \$379m or \$2.19 in the same quarter last year. However in the latest quarter there was a special \$80m gain from an offshore. accident settlement and the sale of Arco's Norwegian

For the first nine months tax in the third quarter, up

Arco's net income was \$1.45bn, compared with \$1.55bn last Third-quarter sales were

more than \$1bn higher at \$4.8bn, while the nine-month revenue figure of \$13bn, compared with \$12bn in the first three quarters of 1989. Mr Lodwrick Cook, chair-

man, said the third-quarter result reflected the rise in crude oil prices resulting from the Gulf crisis and the loss of crude and refined oil supply

Arco's worldwide oil and gas exploration and production operations armad sono

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from \$188m in the third quarter of 1989. Refining and mar-keting earned \$138m, against

The Arco Chemical subsidiary saw its after-tax third quarter earnings drop to \$49m from \$78m a year ago as lower styrene margins and lower domestic volumes offset margin gains from propylene oxide and derivatives.

The third-quarter net also includes a \$28m special before-tax charge related to the reduced volumes caused by the July 5 explosion and shutdown of an Arco Chemical Texas

### **Bidders** for **ENTel seek** improved sale terms

By John Barham in Buenos Aires

NEGOTIATIONS over the privatisation of ENTel, Argentina's national telephone company, are deteriorating into a tense confrontation.

Government officials have reacted angrily to pressure from the two groups buying ENTel to improve terms of sale. President Carlos Menem has vowed to transfer ENTel to its new buyers by November. However, sources close to the negotiations say the brinkmanship could wreck the pri-vatisation. An Argentine busi-nessman said: "The bidders know that the government is politically committed to privatising ENTel, so they are pushing for the best terms possible."

Officials have reacted by threatening to abort the priva-tisation or recall a consortium led by Manufacturers Hanover that had backed out this month. However, Bell Atlantic, a member of the Manufacturers Hanover consortium, said yesterday it would not return to the negotiating

The government has agreed to sell the company to two groups for \$214m in cash and \$5bn-worth of Argentine for-eign debt certificates, making world's largest privatisation efforts yet.

However, it has also become one of the most troubled sales, following the retreat of Manufacturers Hanover, the ejection of Argentina's chief negotiator, Ms Maria Julia Alsogaray and seemingly interminable negotiations,

The two groups - one com-prising the Spanish state tele-phone company and the other the French and Italian state telephone companies - are demanding higher telephone charges than the government is willing to concede.

### **Bankers** Trust turns in profit

By Alan Friedman BANKERS TRUST, the fifth largest US bank, achieved a third-quarter net profit of \$170m, a respectable achievement in the present financial

The net income compares with a \$1.4bn loss in the same caused by a special 1989 provi-sion for loan losses on Third World sovereign debt. Stripping out last year's spe-cial loss provision, the 1990 third-quarter figure would be

slightly below the level of earnings a year ago, which is still a reasonable result given the trend toward sharply lower earnings from most New York commercial banks.

Earnings per share for the third quarter were \$1.98. Bankers Trust said its non-performing real estate assets were \$93m in the third quarter, which compares with

\$25m a year ago.
Mr Charles Sanford, Jr,
chairman, said the bank was
able to achieve strong earnings despite the difficult economic environment, thanks to the bank's risk ma global trading and fiduciary

On Wall Street the bank's shares were marked \$\% higher yesterday morning to \$33\%.

### Varity to move headquarters

By Robert Gibbens in Montreal

VARITY, formerly the Massey-Ferguson company, has finally got its way and is to move its corporate head-quarters to Buffalo, NY.

The company has signed an agreement with Canada's Federal and Ontario governments and the Canadian American.

and the Canadian Autowork-ers Union, freeing it from ear-lier commitments to keep its headquarters in Ontario.

In return Varity undertakes to keep 1,200 manufacturing jobs in Ontario until at least early 1998. Though it will close one Kelsey-Hayes vehicle parts plant in Ontario at a cost of 450 jobs, it will invest C\$3.5m (US\$3m) to modernise another Kelsey plant nearby. Varity will pay C\$21m to

both governments as compen-sation for the workers laid off in the past, a further C\$12m to settle claims by 1,500 workers who lost their jobs when Mas-sey Combines failed in Ontario in 1988, plus C\$5m into a wage

Varity has tax loss carry-forwards of nearly US\$1bn and has said these can be used more effectively in the US. Mr Robert Rae, Outarlo premier, said the deal was best possible and we did not want to spend the next 10 or 15 years in the courts fighting Varity".

# Placer Dome puts a shine on its activities

Barbara Durr reports on the gold group's progress

Several months ago, Mr Earl Dunlop, chief of investor relations for Placer Dome, the Canadian gold mining group, went to a leading New York brokerage house to ask if it would begin to follow the company. "They didn't want to talk to me then." he says with a wry smile, "Now, they call me."
Placer Dome, the world's

fourth largest gold mining company outside South Africa, has been attracting attention through a string of impressive acquisitions at home and abroad that have brought it rich, low-cost deposits. And, the sale of oil and gas assets has given it greater mining

"They're doing all the right things," says Mr Warren Myers, a Merrill Lynch gold analyst.

Although the price of gold has had less of a boost from the Gulf crisis than many expected and considerable uncertainty persists about where the price will go, Placer Dome is concentrating on keeping its reserves up and its costs

The company, based in Van-couver, has developed five new gold mines in four countries since 1989 and acquired a slice of Eskay Creek in British Col-umbia, considered one of the hottest gold properties in Can-

ada.

The company was also due to close its deal yesterday for all the shares of Continental Gold, whose principal asset is a 70 per cent interest in the Mount Milligan gold-copper property, also in British Col-

New mine development will cost about C\$1.1bn (US\$941m) by 1992, but these projects will reverse the decline in company

Placer Dome will produce an estimated 1.4m ounces of gold in 1990, up from 1.2m last year, at a cash cost of about US\$230 per ounce. Production should increase to 1.65m ounces by 1992, a good way toward the company's goal of turning out 2m ounces per year.

Company production esti-

largely unaffected by protracted labour problems at its Dome mine in Ontario, which last year produced 12

per cent of its gold.

This month the company said it made its last offer to workers, on strike since May 7, and if this were not accepted by November 16, the mine would be closed.

If the offer is accepted, the mine will be upgraded at a cost of C\$12m and restructured, with a reduction of 400 jobs.

The mine, which last year had a high cash operating cost of US\$342 per ounce, has been producing during the strike at a reduced level. The Ontario troubles have been dwarfed not only by Eskay Creek and Mount Milligan but by two of Placer Dome's recent foreign acquisi-

The Porgera mine in Papua New Guinea, which has just gone into production, is expected to be one of the top six non-South African gold producers in the world with 900,000

ounces annually, Placer Dome has a 23 per cent net interest and is the manager. The cash cost of production at Porgera is calculated at just \$105 per ounce for the first five years, and \$150 per ounce over the 18-year life

of the mine. It is also about to move into the second stage of production at La Coipa in Chile, where it is a 50 per cent partner. La Coipa is due to produce 200,000 ounces of gold and 16m ounces of silver annually for the first two years. Over its 12-year life, the mine is expected to yield 2.2m ounces of gold and 114m

ounces of silver. La Coipa's bulky addition of silver to Placer Dome's take from its Mexico mine Real de Angeles is helping to make it one of the world's largest silver producers. The company expects to produce 15m ounces of silver per year by 1992.

Placer Dome, with 22 operations in seven countries, has established a reputation for being prepared to go where

the deposits are good and the risks are considered manage

To offset the dangers of such a far-flung empire, it has obtained political risk insur-ance to cover half of its \$700m exposure in Papua New Guinea and Chile. Should the worst occur, the balance at risk would be only 10 per cent of

the company's gross assets.

Gold analysts are impresse with the company's global strategy. It has money in the bank, a sizeable exploration budget and one of the best development teams in the world, according to Mr Egizio Bianchini of Nesbitt Thomson Deacon in Toronto, Mr Deacon in Toronto, Mr
Anthony Petrina, Placer
Dome's president and chief
executive officer, also wins
high marks as a top flight
miner and manager.
Mr Bianchini believes Placer
has been especially shrewd in

choosing to build up its North American operations because these "shift risks to balance those in Papua New Guinea".

The company is looking sleeker, too, after the recent sales of its gas and oil properties in the US and Canada. The US energy operations were sold for a net gain of US\$220m and the Canadian energy holdings for one of

There are, however, a few blots in the Placer Dome notebook. It was unable to obtain a controlling share of Stikine

Resources, which owns half of Eskay Creek.
Placer bought 45 per cent, but its competitor, Corona, also owns 45 per cent and effec-tively thwarted Placer Dome's attempt to place a director on the Stikine board this year. The battle for control does not appear to be over and could

become a beadache. Placer Dome also had to take a writedown of C\$8.7m in the first half on its share of the Big Bell mine in Western Austra-

But for now these problems appear to do little to tarnish the company's shine.

This announcement appears as a matter of record only. These securities have been sold.

New Issue

September 1990

C\$122,500,000



American Barrick Resources Corporation

5,000,000 Common Shares C\$24.50 per Common Share

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### OFFER OF CONVERSION TO HOLDERS OF 10 per cent TREASURY STOCK, 2004

TO CONVERT INTO 10 per cent TREASURY STOCK, 2003 Application will be made to the Council of The International Stock

Exchange for 10 per cent Treasury Stock, 2003 issued as a result of this conversion to be admitted to the Official List on Wednesday, 14th November 1990.

1 THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND are authorised to invite holders of 10 per cent Treasury Stock, 2004 to convert all or part of their holdings into 10 per cent Treasury Stock, 2003 as on 18th November 1990 at the rate of £100.05 nominal of 10 per cent Treasury Stock, 2003 per £100 nominal of 10 per cent Treasury Stock, 2004.

Holders who do not wish to convert any part of their holding should do nothing.

3 Registered holders of 10 per cent Treasury Stock, 2004 at the close of business on 16th October 1990 who exercise the option to convert as on 18th November 1990 will receive the interest payment due on 18th November 1990. Interest at the rate of £3.0137 per £100 nominal of 10 per cent Treasury Stock, 2003 will be paid on 8th March 1991 in respect of Stock issued as a result of the conversion.

4. Conversion will be into registered stock of 10 per cent Treasury Stock, 2003 which, subject to the provisions contained in this notice, will rank equally in all respects with Stock already issued and will be subject to the provisions of the notice in lieu of prospectus for 10 per cent Treasury Stock, 2003 dated 24th January 1986. Holdings of 10 per cent Treasury Stock, 2004 in respect of which the conversion option is exercised will be sumendered free from all liens, charges and encumbrances and with all the rights now or hereafter attaching to them except the right to receive the interest payment due on 18th November 1990.

B Copies of this notice and acceptance forms for completion are being sent by post to holders of 10 per cent Treasury Stock, 2004 on the Bank of England Register and the Bank of Ireland, Belfast, Register. In the case of joint accounts, the forms are being sent to the first-named holder. Holders who wish to convert all or part of their holdings should complete the acceptance form. Stock resulting from this conversion will, if the account details are identical, be added to existing holdings of 10 per cent. Treasury Stock. 2003.

6 In the case of stockholders who are not members of the Central Gitts In the case of stockholders who are not members of this central data office (CGO) Service, completed acceptance forms with stock certificates must be sent to the Chief Registrar, Bank of England (Conversions), PO Box 444, Gloucester, GL1 1NP to arrive not later than 12.30 P.M. ON MONDAY, 12TH NOVEMBER 1990; or lodged at the Central Gits Office, Bank of England, 1 Bank Buildings, Princes Street, London, EC2R 8EU not later than 12.30 P.M. ON MONDAY, 12TH NOVEMBER 1990; or lodged at any of the Branches or Agencies of the Bank of England not later than 3.30 P.M. ON FRIDAY, 9TH NOVEMBER 1990. The Bank of

7 In the case of stockholders who are members of the CGO Service, completed acceptance forms must be lodged at the Central Gits Office, Bank of England, 1 Bank Buildings, Princes Street, London, EC2R 8EU not later than 12.30 P.M. ON MONDAY, 12TH NOVEMBER 1990.

8 Copies of this notice and National Savings acceptance forms B Copies of this notice and National Savings acceptance forms for completion are being sent to holders of 10 per cent Treasury Stock, 2004 on the National Savings Stock Register. Holders who wish to convert all or part of their holdings should complete the acceptance form and send it with investment certificates for at least the amount of Stock specified on the acceptance form to the Bonde and Stock Office, Mythop Road, Blackpool, FY3 9YP to arrive not letter than 12.30 R.M. ON MONDAY, 1.2TH NOVEMBER 1990.

9 If a holder wishes to convert but cannot obtain an essential signature or document by 12th November 1990, the acceptance form, completed so far as possible, should be lodged in accordance with paragraphs 8 or 7 above, accompanied by a letter from a bank, solicitor or other professional adviser giving the reason for the acceptance being incomplete and undertaking to put it in order as soon as possible; it may then be possible to give effect to the acceptance. If there is insufficient time for the acceptance form to be lodged before the close of the offer, the holder may notify acceptance by facalmile (fax numbers 0452 398077 or 0452 398013) quoting brief particulars to identify the account and specifying the amount of 10 per cent Treasury Stock, 2004 to be converted; this should be followed without delay by a completed acceptance form and the certificates.

### Arrangements for conversion

10 Up to and including 18th November 1990 holdings in respect of which the conversion option less been exercised will be described on the register as 10 per cent Treasury Stock, 2004 "Assented"; and from 19th November 1990 until 1st February 1991 new holdings of 10 per cent. Treasury Stock, 2003 issued on conversion will be described on the register as 10 per cent Treasury Stock, 2003 "A". Certificates for the new holdings of 10 per cent Treasury Stock, 2003 "A" will be issued as soon dings of 10 p as possible after 19th November 1990.

in respect of which the conversion option has been exercised will be described as 10 per cent Treasury Stock, 2004 "Assemted"; and from 15th November 1990 until 30th Jenuary 1991 behances in respect of 10 per cent Treasury Stock, 2003 issued on conversion will be described as 10 per cent Treasury Stock, 2003 "A". 11 Up to and including 14th November 1990, CGO account be

> U.S. \$400,000,000 National Westminster

Finance B.V. (Incorporated in The Netherlands with limited liability)

**Guaranteed Floating Rate Capital Notes 2005** 

in accordance with the provisions of the Notes, notice is hereby

given that for the six months interest Period from October 23, 1990 to April 23, 1991 the Notes will carry an interest Rate of 8% per annum. The interest payable on the relevant interest payment date, April 23, 1991 against Coupon No. 12 will be U.S. \$420.24.

By: The Chase Manhattan Bank, N.A.

London, Agent Bank

October 23, 1990

12 Transfers of 10 per cent Treasury Stock, 2004 for which stock transfer forms are lodged for registration up to 12.30 p.m. on 12th November 1990 will carry the option to convert into 10 per cent Treasury Stock, 2003 as on 18th November 1990.

13. Up to and including 13th November 1990, applications will be accepted for transfers of holdings in both 10 per cent Treasury Stock, 2004 and 10 per cent Treasury Stock, 2004 "Assented" on the National Savings Stock Register. From 14th November 1990 applications will be accepted for transfers of holdings in 10 per cent Treasury Stock, 2004, 10 per cent Treasury Stock, 2003 and 10 per cent Treasury Stock, 2003 "A". Balance certificates and certificates for stock issued on conversion will be sent by post to stockholders on the National Savings Stock Register by the Department for National Savings.

14 Transfers of 10 per cent Treasury Stock, 2004 "Assented" may be ledged for registration in that form up to 14th November 1990. After that date, on the ledging of such transfers for registration the transferees will be date, on the logging of such transfers for registration are detained as modern of the appropriate amounts of 10 per cent Treasury Stock, 2003 "A". Transfers of 10 per cent Treasury Stock, 2004 "Assented" lodged for registration or sent for certification should be accompanied by the Bank of England's ecknowledgement of the receipt of the acceptance form or, if the acknowledgement has been lodged with an earlier transfer of the Stock, by the receipt issued for that transfer.

15 The interest due on 8th March 1991 will be paid separately on holdings of the existing 10 per cent Treasury Stock, 2003 and on holdings of 10 per cent Treasury Stock, 2003 "A" registered at the close of business on 1st February 1991; consequently, interest mandates, authorities for income tex exemption and other notifications recorded in respect of existing holdings of 10 per cent Treasury Stock, 2003 will not be applied to the payment of interest due on 8th March 1991 on holdings of "A"

Where the conversion option has been exercised, any instructions The payment of interest registered in respect of a holding of 10 per cent Treasury Stock, 2004 will be applied to the new holding of 10 per cent Treasury Stock, 2003 "A". Similarly, where instructions have been given by the Inland Revenue authorities for interest on the holding of 10 per cent Treasury Stock, 2004 to be paid without deduction of income tax, the instructions will be applied to the new holding of 10 per cent Treasury Stock, 2003 "A".

17 Transfers of 10 per cent Treasury Stock, 2003 "A" may be lodged at the Bank of England for registration in that form up to 30th January 1991. After that date, for purposes of certification, the "A" stock will not be distinguished from the existing 10 per cent Treasury Stock, 2003. From the opening of business on 4th February 1991, the "A" stock will be an significant on the register with 10 per cent Treasury Stock, 2003. CGO account balances will have been amalgamated from the opening of business on 31st January 1991.

18 Her Majesty's Treasury have directed that Section 471 of the Income and Corporation Taxes Act 1988 (which relates to the treatment for taxation purposes of financial concerns whose business consists wholly or partly in dealing in securities) shall apply to exchanges of securities arising from this offer.

Particulars of the Issue of 10 per cent Tressury Stock, 2003 19 The terms of Issue of 10 per cent Treasury Stock, 2003 were contained in the notice in lieu of prospectus dated 24th January 1986 and included the following provisions:—

The Stock is an investment falling within Part II of the First Schedule to the Trustae investments Act 1961. The principal of and interest on the Stock is a charge on the National Loans Fund, with recourse to the Consolidated Fund of the United Kingdom.

The Stock will be repaid at per on 8th September 2003.

Interest is payable half-yearly on 8th March and 8th September. Income tax is deducted from payments of more than £5 per annum. Interest werrants are transmitted by post.

The Stock is registered at the Benk of England or at the Benk of Ireland, Belfast, and is transferable, in multiples of one penny, by Instrument in writing in accordance with the Stock Transfer Act 1963. Transfers are free of stamp duty.

Stock registered at the Bank of England held for the account of members of the CGO Service is also transferable, in multiples of one parmy, by exempt transfer in accordance with the Stock Transfer Act 1982 and the

20 Additional copies of this notice, the perticulars of 10 per cent Treasury Stock, 2003 and forms for the acceptance of the conversion offer may be obtained by post from the Bank of England, New Change, London, EC4M 9AA; at the Central Gits Office, Bank of England, 1 Bank Buildings, Princes Street, London, EC2R SEU, or at any of the Branches Agencies of the Bank of England; at the Bank of Freiend, Moyne Buildings, 1st Floor, 20 Callender Street, Belfast, BT1 5BN; or at any office of The International Stock Exchange in the United Kingdom.

2.1 Members of the CGO Service may obtain further guidance about the arrangements set out above in relation to their accounts by contacting the Cantral Cits Office, Sank of England.

STOCKHOLDERS UNCERTAIN AS TO THE BEST COURSE TO FOLLOW SHOULD CONSULT THEIR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

Government Statement
Attention is drawn to the statement leaved by Her Majesty's Treasury on 20th May 1985 which explained that, in the interest of the orderly conduct of fiscal policy, neither Her Majesty's Government nor the Bank of England or their respective servants or agents undertake to disclose tex changes decided on but not yet anounced, even where they may specifically effect the terms on which, or the conditions under which, the further amount of 10 per cent Treasury Stock, 2003 is issued or sold by or on behalf of the Government or the Benk; that no responsibility can therefore be accepted for any omission to make such disclosure; and that such omission shall neither render any transaction liable to be set selds nor give rise to any

BANK OF ENGLAND LONDON

22nd October 1990

Christiania Bank og Kreditkasse

U.S.\$100,000,000 Floating Rate Subordinated Notes Due October 1997
Notice is hereby given that the Rate of Interest has been fixed at 8.5% and that the interest payable on the relevant interest Payment Date April 23, 1991 against Coupon No. 11 in respect of US\$10,000 nominal of the Notes will be US\$429.72 and in respect of US\$250,000 nominal Notes will be US\$10,743.06.

October 23, 1990, London
By: Citibank, N.A. (CSSI Dept.), Agent Bank

CITIBANCO

### U.S. \$100,000,000



Collateralized Floating Rate Notes Due 1992

interest Rate Interest Period

8%% per annum 23rd October 1990 23rd April 1991

Interest Amount per U.S. \$100,000 Note due

U.S. \$4,234.03

23rd April 1991

Credit Suisse First Boston Limited

Agent Bank

### Dresdner Finance B.V.

U.S.\$ 400,000,000 Floating Rate Notes 1983/1993 with Warrants

The Rate of interest applicable to the interest Period from October 23, 1990 to April 22, 1990, inclusively, was determined by Morgan Guaranty Trust Company of New York, London, as Reference Agent to be 8½ per cent per annum. Therefore, present per Note of U.S.\$ 1,000 principal amount is due on April 23, 1991, the relevant interest Peyment Dete, in the amount of U.S.\$ 426,56.

Dresdner Bank

### The Republic of Venezueia Notice

to the holders of the U.S. \$100,000,000 11%% Notes Due 1993

U.S. \$100,000,000 Floating Rate Notes Due 1993, U.S. \$262,720,000 Floating Rate Notes Due 1992 to 1995

The Republic of Venezuela

Reference is made to the ermouncements made in the Financial Times, the Linemburger Wort and The Well Street Journal on Thursday 11th October, 1960 to the effect that credit enhancement will be provided for payments due under the above mentioned Notes and to the Supplementary Explanatory Statement referred to in those announcements. The pre-conditions to the provision of such credit enhancement have been met.

Benkers Trust Company and Morgen Guerenty Trust Company of New York for and on behalf of the Republic of Venezuela

Deted 23rd October, 1990

### BANK OF GREECE US\$159,000,000

Floating Rate notes due 1994

Notice is hereby given that the Rase of Interest relating to the above issue has been fixed at 8 7116 per case for the period 24th October 1990 to 24th

Agenti Morgan Guaranty Trust Company

U.S.\$200,000,000 Floating Rate Notes 1992

provisions of the Notes, notice is hereby given that, for the six month period 23rd Cereber, 1990 to 23rd April, 1991, the Notes will bear interest at the Notes will ober interest at the nate of 8% per cent, per annum. Coupon No. 7 will therefore be payable on 23rd April, 1991, at US\$10,506.08 per coupon from Notes of US\$250,000 nominal and US\$4250,000 nominal and US\$4250.49 per

S.G. Warburg & Co. Ltd. Agent Bank

### INTERNATIONAL COMPANIES AND FINANCE

# Dogfight in South Korean skies

John Ridding analyses a struggle over the spoils from an air travel boom

South Korean companies have always thought big. When Daewoo started building ships in 1978 it did so with the world's largest dry-dock. Samsung and Hyundai are currently spending \$1.5bn apiece to enter the petrochemi-cals sector with state-of-the

-art complexes. Such boldness is now evident in the country's airline industry. Asiana Airlines, a fledgling carrier which started at the end of 1988, last month announced orders and options for 51 Boeing jets — including 18 Boeing 747s — with a total value of almost \$6bn.

In so doing, the new airline dramatically unstaged Korean Air, already one of the 10 big-gest in the world, which had announced orders for 23 Boe-ing 747-400s two months ear-

Asiana's move signals its determination to expand rapidly. It sounds the death knell for the comfortable monopoly enjoyed by KAL since its cre-ation in 1962 and brings another player to the increasingly competitive Asian skies. But while travellers seem set

to benefit from the competition, the rate of expansion in the industry and the roles of the two Korean carriers raise some difficult questions. "Any company has to follow

its own development plan," said Mr Kim Chang Shik, the transport minister. "But we have to take into account reality and the condition of the industry.

The ministry added that the government was surprised by the size of Asiana's order list and was still considering

approval for the purchases.
Government policy has already played a significant part in the creation and development of Asians. The granting of the licence for the airline to the Kumho group, Asiana's parent company, was influenced by the fact that Kumho is one of the few indus trial groups based in the rela-tively underdeveloped and politically sensitive south-west ern province of Cholla.

Since then the government has awarded Asiana new routes to Japan, enabling it to expand beyond the domestic market which is rendered unprofitable by regulated, extremely low, fares. Flights to Bangkok, Taipei, and Singapore are expected to follow

Not surprisingly, KAL expresses reservations about the expansion plans of its new rival. "The government has been far too accommodating in

### NUMBER OF KORKANS TRAVELLING

ÖVERS	SEAS
Year	Number
1988	725,176
1989	1.2m
1990 Jan-Aug	1m
1990	1.6m°
1991	1,9m°
Terecall	

A Korean Air jet: comfortable monopoly under challenge PASSENGER NUMBERS AND LOAD FACTORS

OF AIR	INES SERVIN	G KIMPO AIF	EPORT
Airline	Year	Passengers (000s)	Loed factor (%)
Konsun	1968	3,400	67.4
11 12 3	1989	4,095	67
	1990 1st qtr	1,693	75
Aseana	1990 1st qtr	58	63.8
JAL	1988	266	57.5
We see	1939	1.004	77.7
	1990 1st qtr	561	71.5
Cathay Pacific	1988	266	57.5
	1989	288	63.8
	1990 1st qtr	128	73.8
North West	1988	650	40.1
	1989	1.063	43.9
	1990 1st qtr	454	63.5
United	1966	214	21,4
	1999	395	<b>37.</b> 7
	1990	188	69.6
KLM	1988	14	32.2
	1989	13	57.2
	1990 1st ofr	7	62.1

warding routes, while Asiana is being much too hasty," said Mr Shim Yi Taek, senior managing vice-president of KAL's aerospace division.

Source:Korean Ministry of Trade and its

Asiana presents a series of arguments to justify its ambitious plans. On the one hand the company points out that 24 of the aircraft on its latest order list are being purchased under option and reflect the large backlog and delivery delays at the world's commerconfident about the prospects for passenger growth, "We expect Korean passenger revenue miles to grow by at least 11 per cent annually until the year 2000," says Mr Yong Tae Park, executive vice president of Asiana. "If we don't buy these aircraft then foreign car-

riers will come and take our market share." South Korea is experiencing a travel boom, prompted mainly by the removal of decides to open up its skies," said a foreign sirline manager

But in the short term at least, the growth of Asiana, and to a lesser extent RAL, faces several constraints. The most immediate is the rise in fuel prices caused by the Guif crisis. "At the moment this is the biggest barrier to our bust-

... ,-.-

ness growth," said Mr Park, Mr Shim at KAL agreed. "Right now we expect an extra \$20m a month in costs.
This means it will be difficult to make a profit at the operating level for the year."

Competition from foreign carriers is also increasing.

carriers is also increasing prompting lower yields on many routes. A number of US airlines, in particular North West and United, now operate many more flights through Korea, while European airlines, attracted by the 1988 Olympics and the potential of the market, have also been the market, have also been drawn to Seoul. KAL has used discounts to keep its market

share. Asiana will also suffer constraints arising from the availability of pilots. Many of the airline's current cockpit crews were recruited from the air force or from KAL. But an angered KAL has persuaded the government to prohibit the posching of its staff while the availability of air force pilots is also falling. In response, Asiana has been forced to establish its own pilot training programme and hire foreign

crews.

If tension arising from the poaching of pilots is easing, however, it is being replaced by rivalry for routes. "Asiana's success in this area is perhaps its most important challenge," said one industry analyst. The fixed costs of a Boeing 747, including financing costs, are between \$6,000 and \$7,000 per hour. "At that price you don't want them sitting on the tar-

Not surprisingly, KAL expresses reservations about the expansion plans of its new rival. The government has been far too accommodating in awarding routes, while Asiana is being much too hasty,' said Mr Shim Yi Taek, senior managing vice president of KAL's aerospace division.

cial aircraft manufacturers. "They don't really have much choice," said a rival air-line company. "If they receive the increases in passenger demand and routes they are hoping for, they have to have the planes. They can always sell the options if the market is

The long period for the orders, with the last delivery to be made in 1999, also reduces the financing burden. "We will be receiving revent some of the aircraft before others are delivered, so the net borrowings will only be about \$1bn," argued Mr Nam Soo Oh, general manager in the compa-ny's finance department. At the same time, Asiana is

travel restrictions. Until August 1987, only Koreans older than 45 could travel freely overseas and it was not until Linuary last year that all age restrictions were lifted for tourists. The lifting of restric-tions, combined with rapid growth in Koreans' disposable incomes, has resulted in a sharp growth in overseas

The number of Koreans travelling abroad has increased 1.4m in the first eight months of this year. South Korea may also become an increasingly important regional airline hub.
"Japan is overcrowded and many striines see Korea as a gateway to China, once Peking

The Korean government is cur-rently deciding on the best way to divide up routes between

l he oxteome is likely to be in favour of KAL on long-haul routes, but with new and extended regional routes going to Asiana. For most in the indus-try, such a division appears the best solution. But for Asiana it in its strategy of flying routes of all distances, it would also raise the question of what to do with the Boeing 747-400s

### Egypt approves al Rayan takeover

By Tony Walker in Cairo

THE Egyptian authorities have approved a \$560m takeover of the ailing al Rayan investment company whose owners were accused of defrauding inves-

accused of defrauding inves-tors of \$716mn.

'The identity of the mystery purchaser of al Rayan's assets, which include property and retail outlets, has not been dis-closed, beyond the fact that the new owner will be Egyptian.
The purchaser has agreed to
pay E£1.54bn (\$551m) into a
local bank by March 31.
The funds, in local currency,

will then be distributed to will then be distributed to some 187,000 depositors, many of whom had ploughed their life savings into al Rayan in the mid-1980s, attracted by offers of a more than 20 per

The al Rayan deal, signed in a Cairo court on Sunday by principals of the company and a lawyer representing the pur-chaser, marks another stage in the long-running saga that began in 1988 when the government belatedly recognised that it had allowed the free-wheeling deposit-taking sector to spi-ral out of control.

The authorities froze the activities of all investment houses pending an investigation into their affairs and introduction of a law to curb activi-

Investigations revealed widespread financial mismanage ment and fraud. It is not clear whether Sun-

day's agreement on a takeover of al Rayan will lead to the release from jail of the company's principals, including Mr Ahmed Tewfik Abdel-Fattah, the chairman. Mr Abdel-Fattab and associates were allowed to move out of a steel cage in the court for the signing ceremony.

Al Rayan was among about 100 deposit-taking companies made subject to Law 146 aimed at regulating the unruly sector. Many of these companies have been forced into liquidation. Only two have been allowed to continue operating, but are fac-

Al Rayan depositors are already complaining about the terms of the agreement, especially those who invested for-eign currency. These investors will receive their funds in Egyptian pounds at the Ef2.34 to the dollar exchange rate prevailing in 1988 — the year when the company's activities were frozen. The current rate is E22.76 to the dollar.

# Cerebos Pacific dampened

By Joyce Quek in Singapore

CEREBOS Pacific, the food group owned by Japanese dis-tilling group Suntory, saw its performance dampened by a foreign exchange losses of \$\$25m (US\$14.8m), its largest ever. As the figures were announced Mr John Bittleston, managing director and chief

at \$\$387.3m and trading profit to 9.8 per cent at \$\$68.9m.

Group profits rose due to the strengthening of the group's core husinesses which were supported by strong contributions from associates. After-tax profits of \$\$33.9m were in line with its forecast Divided to with its forecast. Dividends were raised to 5 cents.

McDougall, the UK foods group.
Mr Bittleston will be

currently on order and designed for long haul operations.

### Schlumberger

SCHLUMBERGER THIRD QUARTER EARNINGS

New York, New York, October 18 - Schlumberger Limited reported third quarter net income of \$147 million compared to \$114 million earned in the same quarter of the previous year, an increase of 29%. Earnings per share were \$0.62 versus \$0.48 in the previous year and also grew at 29%. Operating revenue in the third quarter was \$1.32 billion companed with \$1.11 billion in the previous year, an increase of 20%.

For the first nine months of 1990, net income was \$421 million, \$1.77 per share, compared to \$288 million, \$1.22 per share, reported in the previous year, excluding \$35 million of extraordinary and unusual gains in 1989.

Buan Baird, Chairman, stated that, "The momentum established during the first half of 1990 continued to push cilfield activity shead worldwide. Total revenue in the olifield was up 21% while active drilling rig count was up 8%. Introduction of new services continues to have a favorable impact on revenues."

With regard to the Middle East, he further cited. "The invasion of Kuwait by Iraq on August 2 has created many political and economic uncertainties whose short term effects on our business are impossible to predict. In the longer term, however, the chronic political instability of the Middle East should spur increased exploration and development for oil elsewhere."

> U.S. \$60,000,000 Caixa Geral de Depósitos

### (A state credit institution established under the laws of the Republic of Portugal) Floating Rate Deposit Notes 1994

NOTICE OF EARLY REDEMPTION

Notice is hereby given that in accordance with Clause 6(b) of the Description of the above Notes, Caixa Geral de Depósitos has elected to redeem all of the outstanding Notes at par on the next interest payment date, 30th November, 1990, when interest on the Notes

will cease to accrue.

Repayment of principal will be made upon presentation and surrender of the Notes with all unmatured Coupons anached, at the offices of any of The Paying Agents mentioned

Accrued interest due on 30th November, 1990 will be paid in the normal manner against presentation of Coupon No. 13.



The Sumitomo Bank, Limited Fiscal Agent

Frankfurt am Mair. In October 1990

Principal Paying Agent

Bank of China

In accordance with the coupon from Notes of US\$10,000 nominal.

executive officer, resigned.

Cerebos said the strengthening Singapore dollar affected its performance, limiting growth in sales to 11 per cent

Suntory bought the group in February from Rank Hovis

replaced by Mr John Skinner, director in charge of Australasian operations.

### INTL CAPITAL MARKETS

# Better than expected UK trade figures boost gilts

By Deborah Hargreaves in London and Karen Zagor in New York

GOOD set of UK trade figures gave a fillip to the market for gilt-edged securities yesterday where prices jumped ahead by almost a full point. Yesterday's data marked the first time for several months that the trade figures had been much better than expectations and the numbers also proved the most encouraging in the current round of UK economic data. They showed a current account deficit of £845m for September, against analysts' projections of £1.2bn, and fol-lowing a deficit of £1.2bn in

the opening of the market in response to investors concern about the high level of wage settlements in the UK. But the release of the trade data soon added half a point to prices which remained strong for the

rest of the day.
At the close of trading, a benchmark 11% per cent issue maturing in 2003/07 was 22

### GOVERNMENT BONDS

ticks higher at 101% to offer a yield of 11.44 per cent. In the futures market, the long gilt contract rose from 83.18 to 84 during the course of the day.

■ US Treasuries ended the day in a narrowly mixed range after moving lower in morning trading as profit-taking hit the market after overnight gains. In late trading, the Treasury's benchmark 30 year bond was quoted a lower at 99% to yield 8.75 per cent after losing more than if at mid-session. Shorter-dated maturities were

down about A point.
The Federal Reserve did not intervene in the open market and Fed funds, the rate at which banks lend to each other, ended the day at 71. below the perceived target of 8

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Lower oil prices gave bonds some support and helped offset the negative impact of the bud-get debacle. November crude oil was quoted down \$5.41 a barrel at \$28.38 in the after-noon, the biggest single-day move for a New York Mercanmove for a new rock mercan-tile Exchange crude contract. The fall in oil prices was trig-gered by unconfirmed reports that Iraqi troops had started to withdraw from parts of Kuwait in addition, Monday

•	Coupon	Red Date	Price	Change	Yield	age Week	Heeli age
uk gilts	13.500 9.000 9.000	09/92 03/00 10/08	102-21 86-08 84-24	+05/32 +19/32 +26/32	11.86 11.42 10.95	11.82 11.48 11.01	12.52 11.73 11.11
US TREASURY *	8.750 8.750	08/00 08/20	100-27 99-31	-01/32 + 01/32	8.61 8.75	8.80 8.95	8,93 9,07
JAPAN No 119 No 129	4.800 6.400	6/99	84.8829 94.2423	+ 0.354 + 0.365	7.71 7.44	8.05 7.72	8.83 8.14
GERMANY	8.500	06/00	97.0000	+0.040	5.96	9.08	9.02
FRANCE BIAN OAT	9.000 8.500	11/95 03/00	96.6839 89,6900	+ 0.040	10.12 10.23	10.22 10.38	10.42 10.67
CANADA "	10.500	97/00	95.7000	-0.350	11.23	11.30	11.12
NETHERLANDS	9.000	10/00	98.7600	-0.060	9.19	9.22 -	9.22
AUSTRALIA	13.000	07/00	87,7538	-0.052	13.41	13.37	13.57

November contract, and many long positions were uncovered yesterday morning.

In the foreign exchange mar-ket, the decline in oil prices combined with technical trading to belp the dollar post modest gains yesterday. In late trading, the dollar was quoted at Y125.00 and DMI 5180, compared with overnight lows in Tokyo of Y125.70 and DM1.5020. in the absence of any eco-nomic news of note, bond market trading was quiet yester-day. The budget accord, or lack of one, continued to exert a of one, continued to exert a negative influence on the market. Although a stop-gap spending bill has been approved by the Senate and signed by President Bush, allowing the government to be financed until October 24 and extending the temporary debt ceiling of \$3,195bn, a final deficit reduction package is still far from sattled.

JAPANESE Government bonds traded in a narrow range, but continued to firm despite a weaker yen. The drop in the oil price is offering strong support to the Japanese market where the yield on the 119 benchmark has now fallen to 7.71 per cent.

Traders report heavy buying from penaion funds at the shorter end of the market — three- to four-year bonds — which is lifting up prices along the yield curve. The healthy market conditions look like supporting a successful auction of November bonds on

Wednesday.
Traders are looking for the Ministry of Finance to establish a benchmark bond with the November issue which

existing issue. Many market participants are hoping for a reopening of September's 133 bonds which carried a coupon of 7.3 per cent.

nical Delp/ATLAS Price Som

However, others believe the MoF could achieve cheaper funds amid the market's current strength and that it is more likely to offer a coupon of 7.1 or 7.2 per cent. If this happens, traders will be disap-pointed and look to December for the establishment of another benchmark since the amount of 119 bonds in the market are drying up.

The MoF could also go for a smaller tranche of bonds on

Wednesday, perhaps in the region of Y600bn to Y700bn since its funding requirements are not so great towards the end of the year.

IN GERMANY, the bund market experienced a volatile day as foreign investors moved to buy German bonds and pushed futures prices up. The futures market saw prices rise from 81.92 at the opening to a level as high as 82.38, but then the contract drifted back to

Investors in the German market are still concerned about an increase in bond issu-ance in the next few months bonds rumoured to be launched in the next few weeks. At the same time, they believe the D-Mark has peaked and will see some consolida-

■ FRENCH government bonds continued a week-long trend of stronger prices and the spread between German and French bonds is getting narrower close to 120 basis points.

### FT GUIDE TO WORLD CURRENCIES

available rates of exchange (counded) against four key currencies on Monday October 22,1990 . In some cases the rate is nominal, Market rates are the average of buying and sel except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY	£ STE	US S	D-MARK	OX 1009	COUNTRY	£ STG	05 S	D-MARK	OK TOOP ASM	COUNTRY	£ 516	US S	D-MARK	X 700)
Afghanistan (Afghani) Albaria (Lek) Algeria (Diner) Andorro (Fr Fr) (Sp Peseta)	99.25 10.0656 18.5625 9.8900	50.9235 5.1644 9.5241 5.0743	33.5871 3.4062 6.2817 3.3468	40,4276 4,1000 7,5618 4,0285	Cabon (CFA Fri Sambia (Dalasii Germany (D-Marii Chana (Cedii Gibraitar (Gib Si	664.53 1.00	253.7198 7.9613 1.5161 340.9594 0.5130	167.3434 5.2509 1 224.9832 0.3384	201.4256 6.5204 1.2036 270 6843	Papua New Guirea (Kina) Paruguay (Guarani)	1.9490	22,0625 1 0,9438 1205,6182		17.5152 0.7938 0.7492 957 1283
Angola (Kwanza) Antigua (E Carr S)	56.2710 5.28	28 8717 2,70% 5463,3145 1,7973 1,2832	62 5549 19,0426 1,7868 3603 3840 1,1854 0,8463	75.2953 22.9269 2.1507 4337.2708 1.4266 1.0187	Greet: (Drachmal Greenland (Danish Krone) Greend (E Carr S) Guadaloope (Local Fr) Guan (US S)	295.90 11.2350 5.28 9.8900 1.9490	151.8214 5.7644 2.7090 5.0743	100.1353 3.8020 1.7868 3.3468 0.4595	0 4073 120.5295 4.5763 2.1507 4 0285 0.7938	Philippines (Peso) Phicaire is (E Sterling) (NZ S)	50.90 1.00 3 2180 18587 0 259.65 1.9490	25.6541 0.5130 1.6511 9536.6854 133.2221	16 9204 0.3384 1 0890 6290.0169 87.8680 0.6595	20.3665 0.4073 1.3107 7571.0794 105.7637
Austria (Schilling) Azorus (Part Escudo)		10 6336 133.2271	7.0136 <b>87.8680</b>	8.4419 105.7637	Guetropaia (Quetza) Guicea (FA	1213.34a 587 10a	5.6965 622.5448 301.2314	3.7572 410.6057 198.6802	4.5224 494.2321 239 1446	Puerto Rico (US\$) Qatar (Riyal)		3.6428	0.6595 2.4027	0.7938 2.8920
Bangladesh (Taka)	1.9490 8 7225 184,86 69.00	1 0.3707 94.8435 35.4027 2 0195	0.6595 0.2445 62.5549 23.3502 1.3320	0.7938 0.2942 75.2953 28 1059	Geines-Steane (Pena) Geyann (Geganese S) Hafel (Goode)	9.7850	652.6480 45	430.4737 29.8003 3.3113	518.1466 35.8696 3.9657	Penning is delta (FIFe)	9.8900 38.58i 138.595	5.0743 19.7947 71.1108	3.3468 13.0558 46.7018	4.0285 15.7148 56.4541
Beiglum (Beig Fr) Beilze (B S)	3.9361 60.70 3.9140 494.50 1.9490	31 1441 2.0082 23.7198	20.5414 1.3245 167.3434 0.6595	1 6032 24 7250 1 5442 201 4256 0.7938	Honduras (Lempira) Hong Kong (HKS) Hongary (Fortal)	15.2090 119.44	5.8023 7.8034 61.2827	3.8270 5.1468 40.4196	4 6064 6.1951 48 6517	St Christopher (E Carr S) St Helena (E) St Lucia (E Carr S) St Pierre (French Fr)	1.00 5.28	2.7090 0.5130 2,7090 5.0743	1.7868 0.3384 1.7868	2.1507 0.4073 2.1507 4.0285
Blutan (Henitrem) Bolivia (Boliviane) Botswang (Pula) Brazil (Crezade) Brunel (Branel Si	36 00 6.4092 3.6050 191,42 3.3335 5.3664	18 4710 3.2884 1.9496 98 2144 1.7103 2.7534	12 1827 2 1689 1 2199 64.7783 1 1290 1 8160	14 6639 2.6106 1.4684 77 9714 1.3578	iceland dichardic Krons) ledia Gudian Rupeli indenesis Guplabi ican Grapi binari iran Grapi binari iran Grapi binari iran Grapi Sinari iran Grapi Sinari	36.00 3647.38 125.00 0.6093	18.4710 1871.4109 64.1000 0 3126 0.5646 2.0146	36.4467 12.1827 1234.3079 42.3011 0.2061 0.3724 1.3287	43 8696 14 6639 1485.6945 50 9164 0.2481 0.4482 1.5993	St. Pierre (French Fr) St. Vincent (E Carr \$1 San Marino (Italian Lika) Sao Tome (Dobra) Sao Tome (Dobra) Saodi Arabia (Rhyal) Senegal (CFA Fr) Seychelies (Ropee)	5.28 2212.50 294.92 7.3125 494.50	2.7090 1135.1975 151.3186 3.7519 253.7198 4.9563	3.3468 1.7868 748 7309 99 8037 2.4746 167 3434 3.2690	4,0285 2 1507 901 2219 120,1303 2 9786 201,4256 3,9348
Bulgaria (Lev) Buridno Faso (CFA Fri Burme (Kyat) Borsodi (Burnel (Riel) Cambodia (Riel) Cambroda (CFA Fri	494.50 11.5780 318.598 896.54m 494.50 2.2940	253,7198 5,9404 163,4674 460 253,7198	747 C.	2.1859 201.4256 4.7160 129.7751 365 1894 201.4256	israel (Shekel) inaly (Lira) Jamaika (Lanaican S) Japan (Yes) Jordan (Jordanian Disar)	15.1675 245.50	1135,1975 7,7821 125,9620 0,6489	748.7309 5 1328 83.0795 0.4290	901.2219 6.1782 100 0.5152	Sierra Leone (Leone) Singapore (S) Solomon is (S) Somali Rep (Shilling)	330 70 3.3335 4 9949	169 6767 1.7103 2.5628 2630 7542	111,9120 1,1280 1,6903 1735,1404	134.7046 1.3578 2.0345 2088.5295
Ca. Verde (CV Escudo) Cayman is (CL S)	2.2940 184.85 130.394 1.6243 494.50 494.50	1.1718 94.8435 66.9030 0.8334 253.7198 253.7198 311.4930	167,3434 3,9181 167,3434 167,3434 0,7729 62,5549 44,1265 0,5496 167,3434 167,3434 205,4483	201.4256 0.9303 75.2953 53.1136 0.6616 201.4256 201.4256 247.2912	Kenya (Kenya Shiilim) Kiribati (Australian S) Korea North (Wool Korea South (Wool Korea South (North	1400.15	23.0374 1,2832 0,9739 718,3940	15,1945 0,8463 0 6424 473,8240	18.2892 1.0187 0.7732 570_3258	Spain (Peseta) Spanith Ports In N Africa (Sp Peseta) Sri Lanta (Supper)	7.1615 184.85 184.85	2.5442 3.6744 94.8435 94.8435 40.2770	2 4235 62 5549 62 5549 26 5651	2 0198 2 9171 75 2953 75 2953 31 9755
Chies (Secontum Amon)	7.3025	311,4930 4,7729 539,5074 253,7198 253,7198 97,9502 253,7198	205,4483 3,1480 355,8375 167,3434 167,3434 64,6040 167,3434	247,2912 3,7892 428,3095 201,4256 201,4256 77,7617 201,4256	Kowait (Kameliti Dinaria Lass (Hew Kit) Lebanon Gebanes D Lebenton (Malent) Liberta (Libertan Sh Libya (Libya Dinari Lacemboure (Lw Fr)	1 9490 0.5194 2.4950	712.9143 773.4735 2.5442 1 0.2664 1.2901 31.1441	470.2098 510.1522 1.6781 0.6595 0.1757 0.8443 20.5414	565.9755 614.0529 2.0198 6 7938 0.2115 1.0162 24 7250	Surinam (Guilder) Swaziland (Hannen)	8 80650 22 4077g 3 4932	4.5184 11.4970 1.7923 2.5442 5.6080 1.2801	2 9802 7 5829 1 1821 1 6781 3 6988 0 8443 13 9076	3 5871 9 1273 1.4228 2.0198 4.4521 1 0162 16.7401
Cuprus (Cuprus D) Czychoslowach (Cyprus D)	1 5588 0 8350 47.22c 63.19t	0.7997 D.4284 24.2278 32.4217	0.5275 0.2825 15.9796 21.3640	0.4349 0.3401 19 2342 25.7393	Macao (Pataca) Madagastar (NG Fr) Malawi (Pert Ekondo) Malawi (Kwacha)	15.7063 2428.75 259.65 4.9925	8.0586 1246.1518 133.2221 2.5615		6.3976 989.3075 1.05.7637 2.0336	Talman (S) Tanzania (Shiiling) Thailand (Babu)	53 30 382 70 49 00	21.0861 27.3473 196.3571 25.1410 253.7198	18 0372 129 5093 16 5820 167,3434	21 7107 155.8859 19 9592
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MULTI-MARKET POLICY. Simplified credit protection against Increasing risks in EEC and OECD countries.

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WORLD BANK 5/3/4 90 day.

PLOATING RATE MOTER: Denominated in deliers unless otherwise indicated. Coupon shows is minimum. Spread—Margin above the most offered rate (three-month shows mean rate) for US deliers. C.con = The ourset coupon.

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The Flancial Times (id., 1990, Reproduction in whole or in part in any form not permitted without written co

3 BILLION FF SALES FOR THE FIRST NINE MONTHS OF 1990

Consolidated sales for the BSN Group during the first nine months of 1990 came to 40.2 billion French francs compared with 36.2 billion French francs for the 1989 relevant period. The sales by Division break down as follows:

(millions of French francs)	1980	2059
Dairy Products	10,050	9,486
Grocery Products	7,762	7,487
Biscuits	9,504	7.805
Beer	5.469	4,943
Champagne, Mineral water	3,815	8,137
	4,571	4,211
	41,171	37,069
Intra-Group sales	(975)	(870)
GROUP	40,196	36,199

The 1900 figures of the Biscuits Division include the sales of Belin (Prance), Jacob's (U.K.) and Saiwa (Italy), during wine months in 1990, compared to four months in 1989.

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IT'S EVERYTHING LUKE PRANCE'S LEADING FOOD AND BEVERAGE GROUP

### OVERSEAS UNION BANK LIMITED US\$100,000,000

Subordinated Floating Rate Notes due 2011 ledeemable at the option of the loteholders in 1996 and 2006)

in accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the aix months 23rd October, 1990 to 23rd April, 1991 has been fixed at 81/16. The interest ment date, 23rd April, 1991,

US\$250,000 Note. Agent Bank Chartered WestLB Limited

will be US\$10,585,07 per

RED NACIONAL DE LOS FERROCARRILES ESPAÑOLES EQU 100,000,000

Bank of America

International Limited

Gueranteed Floating Rate Motes due 2006 Unconditionally guaranteed by The Kingdom of Spain Holders of Notes of the above issue are hereby notified that for the interest period from 24th October, 1990 to 24th January, 1991 the following will apply:

1, Rate of interest: 10% per annum 2. Interest Amount payable on Interest Payment Date: ECU 255.55 per ECU 10,000 nominal or ECU 2,555.55 per ECU 100,000 nominal The Interest amount payable 3. Interest Payment Date: 24th January, 1991 on 23rd April, 1991 will be

### **CHARGEURS SA**

has acquired

PATHÉ CINÉMA



Rothschild & Cie

August 1990

Banca Nazionale dell'Agricoltura S.p.A. led with limited lieb the Republic of Italy) London Branch

US\$ 150,000,000

issued by Bankers Trustee Company Limited evidencing entillement to payment of Banca

Notice is hereby given that the Rate of Interest has been fixed at 8-3125% for the inerest period 23rd October 1990 to 23rd April, 1991,

US\$ 4,202-43 in respect of

Agent Bank 19th October, 1990

U.S. \$40,000,000



Sivensa Steel Investment Ltd.

Guaranteed Floating Rate Serial Notes due 1995

Guaranteed by Siderúrgica Venezolana Sivensa

S.A.I.C.A.-S.A.C.A. (incorporated in Venezuela with limited liability and domicifed in Caracas, Venezuela)

Interest Rate Interest Period

9%% per annum 22nd October 1990 22nd April 1991

Interest Amount due 22nd April 1991 per U.S. \$100,000 Note U.S. \$250,000 Note

U.S. \$ 4,739.58

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# World Bank taps D-Mark Dresdner sector with long-dated deal

10-year bonds via Deutsche

IMPROVED sentiment during the last week in the German bond market, against the back-ground of lower oil prices and a strong D-Mark, allowed the World Bank to make the first straight, long-dated D-Mark bond issue since July.

Over the past three months, borrowers including the Euro-

### INTERNATIONAL BONDS

pean Investment Bank, Province of Saskatchewan and the Council of Europe have tapped the D-Mark sector with offers of longer-dated, floating-rate securities. But other issuers have chosen either to follow investors to the shorter end of the yield curve or stay out of the sector altogether. In addi-tion to the paucity of swap opportunities, the German gov-ernment is drawing funds away from the international market with its own heavy borrowing programme to finance

Yesterday's DM750m issue of

Euro.Cosi & Steel Comm.(a)

seek clearance

THE three biggest Canadian

chartered banks are to seek US

regulatory clearance to allow their brokerage subsidiaries to trade stocks and bonds of

Canadian companies freely in

They are Royal Bank of Can-

ada, Canadian Imperial Bank of Commerce and Bank of Nova Scotia. They have filed on behalf of their broker sub-

aldiaries RBC Dominion Securi-

ties, Wood Gundy and Scotia McLeod.

By Robert Gibbans

in Montreal

the US.

Borrower D-MARKS

Bank offers a 9 per cent coupon. The other international D-Mark bond issues with a 9 per cent coupon are July's offering from Eurofima, and June's from the World Bank itself – but both include a call

Launched at a price of 101%, the bonds traded late in the day at 99.90 bid, well inside full fees of 1% per cent. At this level the issue offers a yield of 9.01 per cent, just five basis points above yesterday's yield on 10-year German government

Elsewhere in the market, the European Coal and Steel Com-munity launched a L225bn munity launched a L225th 5-year issue via Cariplo. The majority of the paper was taken up by Italian investors, who benefit from tax incentives when buying the paper of certain supranational borrow-

Primary market rumours continue to centre on possible issues from Ontario Hydro. The borrower is taking the unusual step of vetting possi-ble syndicate members for

**NEW INTERNATIONAL BOND ISSUES** 

Canadian banks | Auction postponed in US

THE US Treasury was

yesterday forced to postpone another auction of \$19.2bn of

three-month and six-month

Treasury bills because of Congress's failure to pass legisla-tion raising the US debt

The Treasury cannot issue

government paper exceeding a temporary debt ceiling of \$3,195bn which is not being increased because of the pro-

longed wrangling over the

budget. The Treasury put off an auction on Thursday of 52-week

ceiling

By Deborah Hargreaves

Bank issues **PCs** for first time trading links with South By Katharine Campbell Africa, which it views as unde-

sirable. A dollar and an Ecn deal are possible in the near future, but syndicate managers in Frankfurt

suggest that the details have yet to be fixed.

In the secondary market, the yield differential of interna-

tional dollar bonds over US Treasury paper is continuing to widen. For example, last week's \$190m 10-year issue by

Japan Highway was yesterday quoted at 60 basis points over the curve, compared with 55

basis points on launch day.

Similarly, the \$300m seven year deal for the European

Investment Bank is trading 2

basis points wider at 54 basis

points over the curve.

Bonds issued by the Repub-

lic of Finland guaranteed agency Finnish Export Credit and state bank Postipankki

held steady on news that Moody's Investors Service had

downgraded debt issued by

them to AA-I, from Triple-A.
The downgrading, which had
been expected in the market,
affects \$6.8bn of outstanding

hills and is expected to post-pone today's planned sale of

\$12bn of two-year Treasury

the Treasury to postpone its regular auctions of govern-

ment debt, the timing could make it difficult for the market

to swallow when they are

rescheduled at a later

The government is due to

announce plans for a major

quarterly refunding next Wednesday in a sale that is

While it is not unusual for

1%/14 Deutsche Bk

1%/1% Cariple

DRESDNER Bank, the second largest German bank, is for the first time issuing a class of supplementary capital -Genussscheine or profit perticipating shares (PCs) - as a means of expanding its capital

While Dresdner says it meets the Basic capital adequacy test comfortably — with around 5 per cent each of tier I core capital and tier II supplementary funds currently – all German banks are likely to be faced with the need to raise extra tier II funds to meet EC capital guidelines when they are written into national law. This is because the German

authorities are taking a stricter view as to what they will permit as equity capital; revaluation reserves, notably, are not deemed to pass the test, in contrast to the position in most other countries. The bank is aiming to raise

a total of DM500m in 14-year paper that offers an effective fixed yield of 9.4 per cent. One PC is being offered per 72 ordi-nary shares held. There is an issuer call and investor put right from the end of June

In a generally weaker market yesterday, Dresdner shares shed DM4 to close at DM381. Dresdner's PCs differ from most such instruments in that they are neither tied to the yearly dividend payout nor carry an attached warrant or option on Dresdner stock. One reason for the latter is that Dresdner is not prepared to create warrants based on the

current stock price, which it regards as too low.

Instead, it is offering PCs with a coupon of 9.5 per cent, at an issue price of 98.25. The lower 9.4 per cent effective vield arises because the interest payment can only be made, after the annual meeting, on June 30 of each year.

The PCs carry no voting shares, and are offsettable against tax for the issuer. They count as risk capital because holders participate in balance sheet losses, and rank for payment behind all other bank creditors, though before ordinary shareholders.

# Tailored securities cutting a dash

Simon London examines the appeal of structured private placements

markets, complex "structured" private place-ments are providing a welcome stream of income to otherwise hard-pressed financial institu-

The term "structured placements" covers a broad range of securities. At one end of the spectrum it includes straight debt securities of the type placed by UK corporations in the US, which are structured only in the sense that the underlying covenants are tailored for the investor.

At the other extreme, covers securities which can incorporate a whole armoury of interlocking arbitrage fea-tures - applying liability risk management tools to the other side of the balance sheet. In these austere times financial engineering is not dead, it has just moved out of the public

A stream of UK companies has tapped the US private placement market over the last 18 months with tailored securileum and Pilkington have become the latest companies to raise funds from US institutional investors by placing securities with tailored COVERNMENTS

In the main, these transactions are completed outside the SEC rule 144a which was designed to open up the US private placement market to overseas borrowers. Placements under rule 144a have to be tradeable, so covenants tend to be simple - "cookie cutter" covenants, in market parlance. Yet the main attraction of private placements for institutional investors is that cove-nants can be tailored to yield specific credit risk or tax advantages

However, UK companies have so far been loth to issue more sophisticated forms of structured instruments embraced by US corporations. These more complex structured placements are often a hybrid between traditional debt securities and derivative financial products. The business is investor-driven, with deals structured to offer the investor a specific package of currency, interest rate, equity and even commodity risk exposure - but embedded in a tellored security.

Only when the structure has

such as Nippon Credit Interna-tional and Westpac, are equally coy. As a rule, only the more straight-forward placement

gainst a background of depressed public bond issuers approached, usually wort Benson alone estimates wort Benson alone estimates that it will place around \$1bn with US institutions for UK

exposure to interest rates in the early 1990s, which in this case the investor obviously expects to fall.

For the arranging banks, structured private placements are profitable and low-risk, incorporating none of the underwriting risk associated with finely-priced public offer-ings. If a deal fails to take-off, if for example no issuers are prepared to back the deal, the bank has lost nothing but back office costs and a little good-will. Because the risk is small, deals can be just £5m or less, although bigger structured placements reach £100m or more. Some deals offer a short-term embedded hedge of just one month, other structured securities run for more than 10 years.

Others active in the area,

corporations this year.

Leading US banks active in the area, such as J.P. Morgan, Salomon Brothers and Bankers Trust, publicise a few bigger deals. For example, last week Manufacturers Hanover announced details of a Y2bn five-year placement for Crédit Mutuel, the French institution, targeted at a Japanese

as a loan rather than a bond, carries a straight coupon for 2% years before switching to a

reverse floating-rate note.
This structure offers an

In these austere times financial engineering is not dead — it has just moved out of the public eve

only because the investor is limited to buying listed securi-

with the welcome offer of a

one-off tranche of sub-Libor funding. A risk management package for the issuer is generally offered as part of the deal. Alternatively, the arranging bank itself will act as the

issuer, provided the funding

falls within internal borrowing

targets.
Securities which incorporate both coupon income and currency or interest rate exposure

are not uncommon in the public bond markets. For

example, a number of publicly

traded Eurobonds now feature a fixed coupon linked to a for-

mula based on the yen/Austra-

lian dollar exchange rate. But these "public" offerings are

only the conspicuous tip of a

much larger structured securi-

ties market and are often listed

Few market participents will guess at the size of the structured placement business. The existence and structure of many deals remains a closely guarded secret. None of the leading UK houses active in the market, including Schrod-ers, Warburgs, Barings and Kleinwort Benson, will publi-cise their highly structured

THE LONDON derivative markets

remained suspicious of any recovery in equity prices, fearing that the decline in oil prices was technical and could easily be

The main demand for structured placements comes from Japanese, US and European institutional investors hungry for derivative instruments, but denied access to swaps and options by either their own internal guidelines or the rules imposed by regulatory authorities. There is a booming business in "packaging" the fea-tures of swaps and options to make them acceptable to mar-

ket regulators. There is particular demand from portfolio managers who face multi-currency exposure but are denied access to "naked options" — where the option is held without an underlying holding of stock. Deals are structured without the language of options but with repayment linked to a formula incorporating option-

ther structures are driven by tax or accounting considerations. The vagaries of Japanese accounting are a gold mine for structured placement engineers. Japanese investors are also prepared to take long-term portfolio decisioni and will therefore accept Illiquid instruments designed to be held until maturity. In con-

LONDON TRADED OPTIONS

tiously higher during the after-

cash index ended at 50 poi According to brokers' calculation

notoriously equity-led with short-term investment horizons, and the structured place. ment market in the UK remains strictly limited.

Securities incorporating stock index option features have been an area of particular growth over the past two years. For example, US insur-ance companies have been denied access to overseas equity markets beyond thresholds prescribed by the Securities and Exchange Commission. Yet a structured placement ostensibly issued by a US corporation but incorporating an option on an over-seas stock-market index is deemed to be a domestic secu-

rity for regulatory purposes.
Commodity risk exposure to
oil, gold and other metals has
also been used as a basis for placements. For example, an investor with a large gold port-folio holding may want to buy a security linked to the commodity price although access to the commodity futures market is denied by articles of

Moreover, as the primary structured placement market has developed, so a form of sec-ondary market has evolved in parallel. Arranging banks are increasingly willing to act as brokers, finding buyers for placaments that were written some years ago but have out-lived their usefulness for an

Banks are also willing to dismantle structured placements and take on the embedded rinks themselves. The institu-tions which have invested time and expertise in structured products could soon be reaping a reward in terms of secondary

Although no current market figures are available, the business appears to be healthy. The ments of uncertainty that are impossible to hedge, driving investors -into short-term instruments or cash. Although even here the flexibility of structured placements has won

new adherents.

Banks are simply designing one-month placements that can be rolled over for up to five years at the option of the holder. While the appetite of Tokyo fund managers has less-ened this year, European and US institutions are beginning to understand and accept

calls and was believed to have hedged in the futures market.

tracts changed hands and was

### **LONDON MARKET STATISTICS**

RISES AND FALLS YESTERDAY

	CTU									
O The Financial Time in conjunction with the				-	-					
EQUITY GROUPS		Monday October 22 1990						Thu Oct 18	Wed Oct 17	Year ago
& SUB-SECTIONS	$\vdash$		Est	Gross	Est		19	-	<del>"</del>	- Cappio
Figures in parentheses show number of stocks per section	Hedex Mg.	Dey's Change	Earnings Yield% (Mast.)	Die, Yield% (Act at (25%)	Est. P/E Ratio (Not)	ज्ञ adj. 1990 to date	Index No.	Index No.	Index No.	Index No.
1 CAPITAL GOODS (196)	711.41	+0.3	15.58	6.68	7,84	31.87	709.01	709.43	703.02	891.8
2 Building Materials (26)	963.51		15.22	6.32	8.09	40.76	963.31		959.65	1038
3 Contracting, Construction (35) 4 Electricals (10)	11124.03	+0.2 +0.2	17.31 15.07	6.88 7.21	7,49 8,12	58.05 84.91	1157.23 1862.59			
5 Electronics (26)	1581 52		10.63	5.42	12.86	58.17	1566.20			
6 Engineering-Aerospace (8)	415.12	-0.4	16.24	5.81	7.41	15.45	416.82		407.75	0.
7 Engineering-General (47)	357.02	-12	16.78	7.27	7.17	17.38	361.20	364.57	363.95	O.
Si Metals and Metal Forming (8)	357.02 398.72 269.11	-0.8	28.58	8.38	4.26	17.02	401.77	401_57	398.55	452.
9  Motors (13)	269.11	40.1	18.82	8.82	6.19	14.53	268.83		268.41	355.
0 Other Industrial Materials (23) 1 CONSUMER GROUP (176)	11197.84	+2.5	14.06	6.81	8.22	60.27 31.51	1180.20			
2 Brewers and Distillers (22)	1207.38	+0.5 +0.1	10.24 10.38	4.28 3.92	12.06 11.67	33.61	1201.03 1504.48			
5 Food Manufacturing (18)	1012 75	+0.1	11.46	4.82	10.75	28.13	1007.53			
6 Food Retailing (17)	2362 09	+0.2	10.10	3.54	12.61	20.15 52.68	2358.53		2338.06	2340
7 Health and Household (16)	7457 44	1 477	7.19	3.03	16.43	50.32	2431,66			2383
9 Leisure (32)	1203.50	+0.7	12.44	5.39	9.73	44.58	1194.60		1188.06	1568.
9 Leisure (32)	483.88	40.3	13.30	7.19	9.23	22.95	482.49		485.71	533.
2 Publishing & Printing (14)	2888.75	+1.2	12.42	6.49	10.08	126.51	2854.59		2821.20	3483.
		70.4	10.86	4.54 8.44	11.98	19.51	810.13		806.67	775.
5 Textiles (12) O OTHER GROUPS (107)	978 01	+0.6	14.19 12.64	6.00	8.94 9.62	20.45 32.16	418.28 967.84		407.51 954.41	514.3 1120.9
1! Agencles (16)	11025.36	-0.4	10.35	3.24	11.70	22.25	1028.98		1010.83	1495
2 Chemicals (24)	1016.05	+1.4	13.03	6.56	9.07	46.81	1001.93		988.20	1209
3 Conglomerates (15),	1337.20	+1.1	12.70	7,49	9.49	38.53	1322 39	1324.12	1290.15	1608.
2 Chemicals (24)	1885.97	+0.6	12.88	9.56	9.84	67.29	1874.75		1830.93	2147.
6  Telephone Networks(3)	1066.49	+1.0	12.27	5.13	10.61	25.09 68.12	1055.61			1098.
7 Water(10)	1515.74	+1.3	15.08 12.36	6.95 5.95	7.50. 9.40	6L84	1919.24	1937.63 1475.10	1931.95 1457.73	1937
INDUSTRIAL GROUP (479)		+0.6	12.14	5.33	10.09	32.81		1007.03	997.16	
		+0.2	9.74	5.43	13.41	85,44		2290.67		
011 & Gas (21)		+0.2	11.77	5.35	10.49				2296.64 1103.51	1215
FINANCIAL GROUP (103)	687.66		-44-77	6.91	20.47	32.89	687.80	686.50	688.08	748
2 Banks (9)	735.79	+0.3	22.24	7.83	5.89	42.00	733.58	736.43	733.85	744
Insurance (Life) (7)	1290,22	-0.3	-	5.95	-	55.82	1294.60		1301.96	1232
Insurance (Composite) (6)	583.40	-1.0	-	7.28	-	32.08	589.25	582.96	596.90	644,
7   Insurance (Brokers) (8)	. 846.791	+0.3	8.92	7.59	14.65	4L94	844.03	830.29	809.70	1029_
Merchant Banks (7)		+0.2	7.94	5.92	14.44	12.75	345.41	344.50	344.08	389.7
Property (45)	930.91 244.90	+0.5	11.61	5.23 7.13	16.66 11.07	25.45 11.83	925.26 246.27	930.32 245.87	921.54 245.20	1165.4 326.0
I Investment Trusts (66)	1006 94	+0.6	11.01	3.93	11.0/	25.91	240.21	998.61		220.0 1179,6
L Overseas Traders (5)		+1.0	12.40	8.01	9.60	69.98	1142 21	1125.47	1109.68	
ALL-SHARE INDEX (674)	1015.13	40.5	-	5.54	-	35.66		1007.82	1001 31	1102
	Jaclex	Day's	Day's	Day's	Oct	Oct .	Oct	Oct	Oct.	Year
	No.	Change	High (a)	Law (b)	19	18	17	16	15	290
(FT-SE 100 SHARE INDEX#	] 2102.0i	+13.0	2103.4	2083,91	2089.01	2082.6	2068.01	2083.6	2101-9	2189.
FIXED INTEREST AVERAGE GROSS Mon Fri Year REDEMPTION YIELDS Oct Oct ago									Oct	Year ago

FIX	(ED I	NTE	RE\$1	r ·		AVERAGE GR REDEMPTION		Mon Oct 22	Fri Oct 19	Year ago (approx.)
PRICE INDICES	Mon Oct 22	Day's change %	Fri Oct 19	xd adj. today	xd adj. 1990 to date	British Governs Low Coupens	5 years	10.62 10.83 10.84	10.69 10.97 10.97	10.02 9.59 9.48
British Government Up to 5 years 5-15 years Over 15 years Irredeemables	. 117.68 . 121.98 . 123.67 . 141.78	+0.51 +0.68 +0.01	117.54 121.36 122.83 141.77	=	10.24 11.95 9.84 8.85	4 Medium 5 Coupons 6 7 High 8 Coupons 9 Independent	5 years	11.61	11.68 11.38 11.21 11.78 11.62 11.49 11.05	9.96 9.96 9.60 11.11 10.20 9.77 9.55
5 All stocks Index-Linkel 6 lip to 5 years 7 Over 5 years 8 All stocks	154.22 138.19	+0.14 +0.22	122.09 154.00 137.89 138.99	=	3.04 3.45 3.42	Index-Linked 11 inflation rate 5 12 inflation rate 5 13 inflation rate 1 14 inflation rate 1 15 Date &	% Over 5 yrs 0% Up to 5 yrs 0% Over 5 yrs 5 years	3.01 4.20 13.27	4.34 4.41 3.06 4.21	3.99 3.72 3.12 3.54
9 Debertures & Leans 10 Preference	101.% 72.97	Г.	101.90 73.13			16 Lates 17 18 Preference	15 years 25 years1		12.84 12.41 12.97	12.20 11.68 10.57

20 1100000	1 6	1 <u> </u>	3 1	100 C#C				10.37
#Opening ladex 2093.1;	9 am 2085.2; 10	nn 2086.2; 11 am	2085_3; Noon 209	3.6; 1 pm 2093.3	2 pm 2095.5; 2.	30 pm 209	7.7;3 pm 2	1098.8;
4.10 pm 2101.5; (2)	3,14pm (b) 10.	COMIII : FINK SICIVI I Inkla Geres den Dubl	ichor: The Firmer	iai Timer Numbe	- Day Continuaris	Relation 1 on	des SET O	ed ia HL. orlo
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### UK COMPANY NEWS

# Only 3.6% take up £37m rights issue from Wace

WACE GROUP, the pre-press services group which launched a £37m convertible share issue on the eve of the Iraqi invasion of Kuwait, revealed yesterday that only 3.5 per cent of the rights had been taken up by existing shareholders. The rest of the issue was left

with the underwriter, Barclays de Zoete Wedd, and more than De Zoete & Bevan, broker to the issue, said yesterday: "If wasn't surprising given the way the ordinary share price

The rights issue coincided with the company's £12m agreed hid for its rival Parkway Group and the proceeds will be used to offset Parkway's debts.

way's debts.
The terms attached to the 8 per cent convertible preference shares suggested an effective conversion price of 350p per ordinary share. But since the rights issue and acquisition were announced on August 1, Wace shares have fallen from 236p to yesterday's closing of 136p, down 6p on the day. They now stand at their low-est point since early 1988, in

spite of the August announcement of interim pre-tax profits at the top end of City expecta-

Wace is regarded as one of the strongest companies in the depressed market for pre-press services - preparing photo-

Group, the Exeter-based life insurer, reported a mixed set of new business results, with an

new pusiness results, with an increase in annual premium business offsetting a fall-off in revenues from new single premiums, writes Richard Lapper.

Total new annual premiums rose nearly 12 per cent, from \$31.9m to £35.7m, in the first nine months of 1990. New apprel premiums at the life.

annual premiums at the life

broker division expanded by 25

per cent to £18.1m, reflecting the continuing expansion in

Mixed new business for

Share price (pence)

340 300 240 220 200 Fights have August 1st 1990 Oct

graphs for magazine or poster publication – but observers suggested yesterday that shareholders had spurned the laste partly because they were worried about Wace's ability to revive Parkway. Only 1.34m of the 37.5m convertible shares provisionally allotted were taken up. They now trade at 73p compared with the rights price of 100p.
This is the third Wace cash

call to have fallen foul of a weakening stock market. The first was announced at the end of September 1987 and 38.9 per cent of the rights were eventu-ally taken up. About 80 per cent of a second issue, lannched just before last Octo-ber's mini-crash, was left with the underwriters.

# Pigment bargain could be a pig in a poke

HE PRECIPITATE fall from grace of the Cookson Group over the past year, and particularly the rumour-driven collapse in its share price last month, caused concern not and in the City. concern not only in the City but also up the Thames at the Milibank headquarters of the

giant chemical group ICL By the beginning of September ICI executives were beginning to worry that Cookson's debt problems might affect the stability of Tioxide, the world's second largest paint pigment maker, which is owned jointly by ICI and Cookson. At the same time ICI scented an opportunity to take sole control of Tioxide at a bargain

Meanwhile the directors of Cookson, one of the UK's largest industrial materials groups, faced irresistible pressure from financial institutions to reduce the company's debt load, as its trading position deteriorated and interest payments moved close to the dangerous point where they would be less than two times covered by earnings.

That was the starting point for the negotiations which ended late on Sunday evening, with Cookson agreeing to sell its 50 per cent share in Tioxide to ICI for £160m. Cookson will also receive an interim dividend of film from Tioxide for the current financial year. In terms of historic earnings, ICI certainly seems to have squeezed extremely advanta-

geous terms out of Cookson's financial distress. The deal val-

ues Tioxide at little more than twice its 1989 pre-tax profits of £200m on titanium dioxide sales of £700m.

But Mr Michael Handerson, Cookson chairman and chief executive, says the historic fig-ures give a very misleading impression of Tioxide's pros-pect for the 1990s.

During the second half of the 1980s Tioxide was a very lucrative source of cash for its two shareholders; demand for titanium dioxide, a brilliant white pigment for paints, plastics clean up its plants, which dis-charge large quantities of acid, and to introduce new technology. Tioxide is operating at a competitive disadvantage to Du Pont and some other important competitors, which use an environmentally more accept-

Mr Henderson said Tioxide's capital expenditure requirements could be as much as £700m over the next five years. ICI put the figure much lower in the region of £200m. Analysts say that both sides may

Clive Cookson details the sale of Cookson's 50% stake in Tioxide to its partner ICI

and other materials, increased steadily and production capacity remained limited. Cookson received £200m in Tioxide dividends between 1985 and 1989.
But in 1990 industrial demand for the pigment has fallen sharply and so has its

"Only today Du Pont (the largest titanium dioxide maker) announced another reduction in the dollar price," Mr Henderson said last night.
As more production capacity comes on stream during the early 1990s, including a new Tioxide plant in Malaysia, the

pigment is likely to stay over-supplied, Cookson believes. And Tioxide faces capital expenditure running into hun-dreds of millions of pounds to

be exaggerating to make their point, and the true investment requirement is likely to be between £330m and £400m. The Tioxide sale will reduce Cookson's net debt to a level well below £400m, said Mr Fer-

"Following the disposal," said Mr Henderson, "Cookson will focus its management and financial resources on its core activities in ceramics, plastics and metals."

gus Munro, finance director. "It will take the interest cover

to between three and four

Cookson will still be looking for further disposals of busi-nesses that do not fit in with its long-term strategy. But the Tioxide deal takes the pressure

mented. The company's negoti-ating position will be much stronger and it will not have to deal with would-be purchasers from a position of financial dis-

Both Cookson and ICI yester-day expressed confidence that the Tioxide deal would survive scrutiny from the European Community's merger control authorities. But some analysts said that it could run into trouble, as ICI would become the owner both of the world's largest paints business and of the second largest pigments sup-

sible, now that the deal was public knowledge, that another company would come in with a hid either for the whole Tiox-ide business or for Cookson's

Under the agreement, if ICI sells more than 50 per cent of Tioxide before the end of February 1991, Cookson will be entitled to a pre-specified share of profits from such a sale. ICI says it "has no present inten-tion to make any such sale".

ccording to Mr Hender son, the Tioxide sale secures the future of Cookson as a leading industrial materials manufacturer. On a personal level, he says: "The most difficult thing over the last few weeks has been not being free to explain what we're doing. I feel extremely relieved that we can now start to tell the real story."

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# Beazer loan broke 1985 Companies Act

**London and Manchester** 

tied agency network. A further
14 agents have been added
since June 30, bringing the
total to 652, compared with 572
at the end of last year.

Total single premiums were
down by 19 per cent to £47.9m.
New single premium pensions
business was worst hit, falling
25 per cent to £16.2m.
Mr John Thomson, chairman, blamed the depressed
economic climate and more-

economic climate and meertainties in the corporate pen-sions sector as a result of

ment of Trade and Industry BEAZER, the heavily-indebted housebuilding, contracting and building materials group, broke the Companies Act 1985 by lending £350,000 to Mr Alan Chapple, the group's finance director, so that he could buy a house

The group admitted the breach of Section 330, which forbids companies making loans to directors, in its latest accounts, for the year to June 30. They also show that the group's high level of debt was reduced by £253.8m and that profits were boosted by a pension fund credit.

Beazer's shares were unchanged yesterday at 90p. Mr John Miners, director of accounting, said that the group had told the Departand the Stock Exchange about the "technical breach" of the Companies Act. He said a "slap on the wrist" had been administered but Beazer had been told it would not be pros-

The loan was made to Mr Chapple in July 1989 as a tem-porary bridging facility and was only spotted by the group's joint auditors in Sep-tember this year when they saw the accounts. Mr Chapple then repaid the amount out-

> group profits before tax and exceptional items of £95.5m (£131.1m) included a credit of £11.6m (nil) because of a sur-plus in the US pension

scheme. Mr Miners said credits in future years would depend on what assumptions

were made. Beazer had not debt at the year end of £880.5m (£1.13bn), representing \$3.7 per cent (99 per cent) of shareholders' funds. Of the reduction in debt, Mr Miners said £122m came from exchange rate moves, particularly on the dollar borrowings, which form 96 per cent of the total. Sterling rose from \$1.55 to \$1.74 during the year.

Beazer also sold trade debtors to repay debt. At the year end trade debtors with a face value of 2118.7m had been sold, and the discount and fees related to this programme totalled £10.9m, shown under

Mr Miners said this represented a lower cost than the 10.1 per cent average rate of interest the group was paying on its debt during the 1989-90

The accounts also show that under US accounting princi-ples, Beazer's fully diluted earnings per share would have been 7.82p (26.1p) rather than the reported 21.51p (29.9p). The difference is largely explained by a £29m extraordinary debit relating to the write-off of Reazer's investment in Girvan Corporation, an Australian group which went into receiv-ership. Under US accounting principles this debit would be included in net income.

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An interim Dividend of US\$0.06 per share will be payable on 9th November 1990 to holders on the Register on 2nd November and to holders of the Bearer Shares against presentation of coupon No. 35 at the Paying Agent:-

> Singer & Friedlander Ltd 21 New Street, London EC2M 4HR Kredletbank S.A. Luxembourgeoise 43 Boulevard Royal, Luxembourg

By order of the Board TOKYOTRUSTS.A.



### ARAB INTERNATIONAL BANK **BALANCE SHEET**

June 30, 1990 and 1989 (Expressed in thousands of US dollars)

ASSETS	1990	1989
Cash and due from banks	39,024	24,125
Time deposits	1,131,721	1,004,566
Negotiable certificates of deposit	280,000	250,000
Investments:		-
Marketable notes and bonds	46,192	41,699
Equity participations	101, <del>99</del> 4	104,627
Loans and advances, less provision	553,924	558,193
Accounts receivable and accrued interest	36,208	34,894
Property and equipment	58,073	57,527
	2,247,136	2,075,631

LIABILITIES AND SHAREHOLDERS ' EQUITY 1990<u> 1989</u> Demand deposits 211,689 177,180 Time deposits 1,577,430 1,701,266 Accounts payable and accrued interest 76,779 64,958 Proposed dividends 6,600 6,600 Total liabilities 1,996,334 1,826,168 Shareholders' equity: 165,000 Share capital 165,000 Statutory reserve 37,020 35,737 47,480 General reserve 47,263 1,302 Retained earnings 1,463 Total shareholders' equity 250,802 249,463 2,075,631 2,247,136 353,455 Liabilities under credits, guarantees and acceptances 379,921

Mr. ABDULLATIF A. EL KIB Managing Director

Dr. MOSTAFA KHALIL Chairman

Head Office: Telex:

Telephone:

35 Abdel Khalek Sarwat Street, Cairo, Arab Republic of Egypt, ARABINBANK 92079 AIB - 92296 UNCON UN 22301 - 21717 - 21718 - 21719 - AIBEX UN 3918794 - 3916391 - 3916492 - 3903236

3919663 - 3905381 - 916850 - 916199

Dealing Room Tlx 21316 - 92341 - 92098 - AIBEX UN 3916233

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57 El Gomhoreya Street, Port Said, Arab Republic of Egypt. 63273 AIBPS UN 223739 - 227623

El Tahrir Branch:

1113 Comiche El Nil Street, Cairo. Arab Republic of Egypt. 20113 - 23112 - 21614 AIBIR UN 743448 - 750781 - 750782 - 753228 - 753448

Bahrain Branch:

Telex: Telephone:

Diplomat Tower - Diplomatic Area

Road No: 1705 - Block 317, Manama, Bahrain. 9489 AIBBAH BN - 9538 AIBEX BN Telephone: 531611

Heliopolis Branch: (Under Establishment)

### UK COMPANY NEWS

# **Mixed fortunes** as Hammerson dips to £33.6m

By Vanessa Houlder, Property Correspondent

THE HAMMERSON Property Investment and Development Corporation, the UK's third largest property company, yes-terday revealed a fall from £38.2m to £33.6m in pre-tax profits for the six months to

An increase in rental income was offset by a reduction in profits from disposals and a

rise in financing costs.

Mr John Parry, managing director, said that net rental income, which rose by £4.7m to £56.11m, was increasing in line with the forecast made in the 1988 defence against the bid by Rodamco, the Dutch investment group. This predicted that UK income would increase by 100 per cent and world-wide income by 70 per cent by December 1993.

Hammerson, which has the most international spread of business of the UK property companies, experienced mixed fortunes in all its markets, with the exception of continental Europe where rental

growth was strong.

In the UK, which accounts for 38 per cent of the portfolio, City office rentals were under strain while most shopping centres were holding up well,

The profit of 25.41m (29.75m) from disposals was the third tranche of the proceeds from the sale of River Plate House in London. Mr Parry said he expected profits from disposals for the year would match last year's £14m total, through sales of German prop-

erty.
Mr Parry said that Hammer-son was looking for acquisi-tions that would bring its UK weighting close to 50 per cent. In the past six weeks, he had begun to see some prime city offices and retail properties appear on the market at

acceptable yields. Hammerson, which has gear-



Sydney Mason: Hammerson

ing of 44 per cent, has £250m of undrawn committed facilities available for acquisitions, although it is adamant that

interest charges should not exceed rental income.

The company is also planning to expand in France, Germany and Spain. It said it had peen looking at possibilities in parts of eastern Germany, notably Dresden and Leipzig, but had been deterred by the

lack of infrastructure.

Terms have been agreed with National Power for the leasing of two thirds of Dominant House, Hammerson's 155,000 sq ft office development in the City of London.

Financing costs increased from £20.26m to £24m, resulting mainly from the refinancing of the C\$30m A preference

Earnings per share decreased from 15.27p to 12.7p. An unchanged dividend of 3.5p

_	_	-	_		
DIVI	OΕ	UD\$	ANN	OUN	CED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total legt year
Allied Ldn Propsfin Clydesdale invfin Darby §	2.455 2.45 1.2	Jan 3 Jan 7 Jan 28	2.225 2.6 1.2	3.53† 3.45	3.3 3.1 3.3
Hammerson Propint Lucas Indefin	3.5 4.9☆	Dec 10 Jan 18	3.5 4.5	7	19.5 6.25
Mowat §fin Soot Met Propfin	mil 4 <u>22</u>	Jan 7	8.75	6.75	1.5 6

Dividends shown pence per share net except where otherwise stated

### Severn Trent seeks to lapse Caird offer

By Andrew Bolger

SEVERN TRENT, recently-privatised water company, wants to lapse its 100p party, wants to tape its loop per share offer for Caird Group – in spite of yesterday announcing that it had received acceptances from owners of 56.2 per cent of the waste management group's

ordinary shares. Severn Trent has asked the Takeover Panel for permission to withdraw its hostile £78m cash bid and also to be given the option of submitting a lower offer. It is hoped the Panel will rule – at least on

the first question - today. Caird shares yesterday closed 5p lower at 52p, while Severn Trent shares rose 6p to

Caird last week recom-mended that its ordinary shareholders should accept the offer. Severn Trent yesterday extended its offer until next Tuesday, pending the Panel's ruling.

The water company made its offer conditional on Caird repeating a forecast, given on September 4, that it would make pre-tax profits of £8.5m in the 18 months to December 31. In fact, Caird said last week it would make only 27.15m, and made extraordinary provisions of £4.89m to cover anticipated losses and

cover anticipated losses and closure costs.

Severn Trent is also considering suing Caird over losses which the water company has incurred in building a 29.98 per cent stake in the waste group, on the basis of Caird's results and profits forecast.

Caird contends the profits forecast was not audited and

forecast was not audited and that Severn Trent was warned before the bid was launched not to place too much reliance on the £8.5m figure. Severn Trent said it had

received acceptances from owners of 16.7 per cent of Caird's preference shares, for which it offered 60.3p per share. Caird has advised its preference shareholders to hold out for more. Yesterday the prefence shares closed 2p

The water company was also concerned by Caird's defence document, which referred to void space with planning per-mission for landfill at 24 of the group's 28 landfill and mineral

Analysis said they had ear-lier understood from Caird it had 30m on m with Beences for waste disposal, and not just the planning permission referred to by Czird's valuers.

# Creditor hawks forgather for the Polly kill

The banks are impatient. The 12th hour for Nadir's group nears. Richard Waters reports

tional has been walking a tightrope ever since defaulting on payments to its creditors last month.

A strong prod from any direction could upset its deli-cate balance. Administration, if it comes, could strike the group from a number of

ingles.
The banks remain the most likely prodders. They were owed all but £400m of Polly Peck's £1.3bn of outstanding debts at September 30. The initial hawkishness of some banks was tempered by a more conciliatory attitude from oth-ers. Now, however, the doves' patience appears to have been

Mr Asil Nadir has so far managed to remit only \$10m (£5.1m) from northern Cyprus, despite promising the money as long ago as October 7. He had been making the same promises to his own directors for at least two weeks before

As time has gone on, patience has dwindled. One steering committee bank, which as recently as last week was sounding optimistic about Polly Peck's future, yes-terday offered little hope for its survival beyond tomorrow, if Mr Nadir cannot raise more cash from Turkey and north-

ern Cyprus.

The 10-strong steering committee of leading creditors would not need to call a full meeting of the bank creditors similar to the two held earlier this month - to bring about the appointment of In theory, any creditor can

OLLY PECK International individually petition the court for an administration order. In practice, a judge hearing such a petition would want further evidence from other creditors before proceeding: an administration is intended to work in favour of all creditors, not just

As a result, most administrations come about after creditors have made it clear to a company's directors that the end has come, and the directors themselves petition the court. Directors, wary of the personal liability they face if they continue to trade in such circumstances, are unlikely to resist such pressure.

The steering group of 10 creditors (nine banks and Legal & General, the insurance company) would be the most likely vehicle for conveying the view that the end has come. It has no legal power to act on behalf of the banks, but carries considerable weight given that its members are among the largest individual creditors.
While the banks hold the

whip hand, other creditors, singly or in groups, could them-selves determine the outcome. In the past week they have become increasingly restless and begun to agitate for repayment, giving the banks the uncomfortable feeling that control of the situation may be slipping away from them. The others are:

 Holders of Polly Peck's commercial paper, which pose the most serious threat, since money owed to them is already overdue, and - unlike on bank loans - interest is not rolled up if the facility is not

to be repaid during this month, ogether with interest. Commercial paper holders met Polly Peck yesterday morning to discuss the situa-tion. At least one of them, the property company British Land, has already started legal proceedings to recover its

In a statement yesterday, British Land sald: "We are in no different a position from the other holders of Polly Peck commercial paper totalling £50m and, in the normal way, we have quite properly taken usual steps to protect our interests in respect of the £1m obligation placed for us by

British Land said it considered it had a different relationship to Polly Peck than did the bankers. Commercial paper was strictly a market instrument which should be hon-oured as such, the company

Like any creditor, British Land can petition for the wind-ing up of Polly Peck if it serves a statutory notice demanding repayment and does not receive its cash within three weeks (this would be prima

honds. Polly Peck owes bond-holders SFr650m (£260.62m) and DM100m (£33.87m), although none falls due before November 19, when SFr50m is due to be repaid.

Although no money is over-due, the bondholders still pose a threat. Cross-default clauses give them the power to call for early repayment, if Polly Peck has defaulted on other pay-

Bondholders are preparing to meet to consider just these things: on October 31, in the case of the six Swiss franc facis evidence under the Insolvency Act that the company was insolvent).

Holders of the company's things: on October 31, in the case of the six Swiss franciscus, and November 2 for the D-Mark bonds.

# Nadir crisis casts shadow of gloom across Turkey

By David Barchard

DESPONDENCY IS getting steadily deeper inside Polly Peck International's Turkish operations, and in Mr Asil Nadir's personal businesses in Istanbul. The group's cash crisis is worsening and prospects of a rescue constitution. of a rescue operation seem to be fading. "Suddenly we are being told

to pay for everything coming from sister companies in the group. Relations between dif-ferent companies are increasingly acrimonious. It is every man for himself," said one of Mr Nadir's employees. The prospect of a Polly Peck

collapse is casting a shadow across Turkey from Istanbul, where Mr Nadir's press empire and banking operations are based, to the Turkish Mediterranean coast where Meyna, the main fruit and vegetable operation, is based.
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mates) on compact disc, powerful,

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extensive research and analysis. Reports and graphs are produced

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Containing information from

local farmers wonder openly if they will get paid for this year's citrus crop which is now being harvested.

"Polly Peck has always driven a hard bargain with local farmers and many of them are heavily dependent on the group. Now they are afraid that the company may not have the cash to buy their produce. If it can't buy, then probably no one else will be able to do so," said one resident of

He added: "It is a stark contrast to last year when Polly Peck was still cash-rich and willing to pay very high sums to buy out some of its local competitors. Some of them couldn't believe the price they were being offsred." Polly Peck's fruit export

operation is thought to be the cash-cow of the group. Vestel, the group's consumer electronics division, was also reporting a strongly improved cashflow in the first half of the year. If the Polly Peck group is placed in the hands of an administrator, both companies can expect to find buyers fairly

MR NADIR is to renow his attempts to force the Serious Fraud Office to tell him the basis for its investigation into his affairs, writes Raymond Hughes.

Next Monday lawyers for Mr Nadir will be back in the High Court to appeal against a judge's refusal to allow him to apply for an order directing Mrs Barbara Mills, QC, the SFO director, to supply him with details of the investigation, which began on

Mr Nadir wants a judicial review of what he claims is the SFO's "unfair" refusal to tell him what transactions gave rise to

On October 12 Mr Justice Steyn turned down the application, saying it would be "unworkable to impose a general duty on the director of the SFO to supply particulars if the person investigated asks for such information."

Good administration would be hindered, not promoted, if the disclosure order sought by Mr Nadir was made, the judge said.

Nadir's loss-making press operations, which include three daily newspapers. Com-petitors in Istanbul estimate that these cost Mr Nadir about \$2m (£1.02m) a month. Just how these losses have

been financed has never been clear. Until recently, employthe operation seems to have been basically simed at provid-ing political support in the media for President Turgut esily.

Ozal and the ruling MotherThe same is not true of Mr land Party. Mr Nadir's press

empire even includes an embryonic satellite television operation with German part-

Now print orders are being cut and unismiliar economies are being made. Newer and cheaper suppliers are being sought and the axe has begun to fall. At least one senior Istanbul, bandling Mr Nadir's upmarket English-language printing operations, was made redundant last week.

which under Mr Nadir has been transformed into Turkey's main quality daily, yesterday gently dismissed claims that his paper was unable to buy more newsprint.

"We are doing our best to muddle through somehow," he said. But he appeared to share the general pessimism in the group which holds that it will be placed in the hands of an administrator in the next few days.

iys. Banks in Istanbul say that Banks in Istanbul say that Mr Nadir is still trying to find a buyer for Impex Bank, the small bank which he bought two years ago. "We have held discussions with some possible buyers," one Istanbul banker said yesterday.

One of Polly Peck's main Turkish benkers, Yapi ve Kredi Bankasi, said yesterday that a \$12.5m lean to the group mnounced in days ago had not been disbursed.

"Polly Peck have told us that they do not need the money for

the time being and so preliminaries to making the loan, such as mortgage agreements for collateralisation, have not Mr Metin Münir, editor of so far been carried out," the Güneş, an İstanbul newspaper bank said.

# Spurs holders still await clarification over finances

By Andrew Hill

SHAREHOLDERS Tottenham Hotspur, which owns the famous London football club, are still awaiting a formal explanation of the developing situation at the company, following conflicting reports at the weekend about its financial health.

Umbro yesterday confirmed that it signed a deal with Spurs about 10 days ago, under which

London Properties turned in profits halved from £12.88m to

26.07m for the year to June 30.
Clasgow-based SMP, using an internal valuation, announced net asset value per share almost unchanged at

240.2p, compared with 241.3p

last year.
Mr Gordon Milne, managing

director, said property values in Edinburgh and Glasgow had held up "particularly well." About 60 per cent of the com-pany's rental income is derived

from properties in Scotland. SMP's short-term debt rose

from £37m to £98m in the current year, with long-term debt

Gross rents rose to £17.45m (£12.66m) and net revenue from

unchanged at £66m.

**SMP and Allied London** 

in the Manchester sportswear manufacturer will have sole right to use the Spurs badge on products for four years,

contract is worth about £4m, of which fl.1m may already have been paid. Umbro would not comment on the value of the deal, but it could provide temporary relief for Spurs

eginning next June.
It is understood that the

Allied London announced a

cut in pre-tax profits of 53 per cent. Mr Geoffrey Leigh, chair-man, said the reduction was

the result of a provision of £1.9m against its land bank, as well as a weak housing market

and the rise in interest rates.

The property write-down reduced its fully diluted net

asset value per share to 168p (193p). The total value of the portfolio at June 30 was £220.6m.

Earnings per share dropped to 4.41p (10.84p).

The board recommends a final dividend of 2.455p (2.225p), making a total of 3.53p (3.3p)

which is labouring under a heavy burden of debt.

A private company controlled by Mr Irving Scholar, Spurs club chairman, lent £1.1m to Spurs at the beginning of August, having borrowed the sum from Headington Investments, a vehicle for Mr Robert Maxwell, the publisher, and his family.

Mr Scholar has to repay the sum before next Monday, unless he can vary the loan

A circular on the loan and other matters is expected shortly. Spurs' shares were suspended at 91p last Friday after the Stock Exchange said there was not enough public information available for investors to value the shares.

### turn in lower results service includes Lotus software, By Andrew Jack a CD reader, full support, plus a SCOTTISH Metropolitan Property yesterday reported properties was up to £17.02m (£11.64m). weekly updated disc packed with inpre-tax profits down 16 per cent to £10.43m in the year to August 15 1990, while Allied Earnings per share fell to 7.52p (8.34p). The final dividend depth information. And it's yours to use as often as you need - all of 4.22p (3.75p) makes a total of 6.75p (6p) for the year.

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**BOARD MEETINGS** 

Revised results from Optical and Medical

Concerns about the validity of one of its accounting policies have been brought to the attention of directors of Optical and Medical International which has submitted new figures for the year to March 81 1990. The policy objected to was

that of adding a proportion of the holding company's expenses to the cost of acquisitions. Counsel's opinion was that these expenses should not be so treated. From pre-tax profits of 26.01m (£7.03m) originally announced, the revised figures are £5.07m (£6.14m). Revised

earnings are 8.5p (8.6p), against 8.5p (10.6p) previously and net assets total £28.1m (£29.73m), compared with £28.1m (£30.27m). The dividend is unchanged but will no longer

the paid on November 16.

The annual meeting scheduled for October 26 is postponed to November 15.

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### **UK COMPANY NEWS**

# hostile offer for Birmingham Mint

A HOSTILE bid battle broke out yesterday between two Bir-mingham-based coin-minting companies, Birmingham Mint and IMI, which runs a tiny minting subsidiary as part of its international engineering

activities. IMI launched a £12.2m cash offer for Birmingham Mint, which condemned the hid as "unwelcome and opportunis-tic" and advised shareholders

to take no action.

IMI is offering 85p for each
Birmingham Mint ordinary share, and 80p for each preference share. Birmingham Mint's ordinary shares rose 23p to 83p yesterday, and IMI slipped 2p

The two companies and the Royal Mint are part of a consortium which makes coins for overseas companies outside the EC. Birmingham Mint and IMI which do not mint British coins, share about a third of the consortium's business. Mr John Metcalf, IMPs com-

pany secretary, said the group had tried to persuade Birming-ham Mint to recommend a takeover to its shareholders, although the target company said it had had no material dis-cussions with IMI.

"What we are trying to do is establish a leading market and technical position in all our niche areas. We think that by by Chartered WestLB, IMI by acquiring Birmingham Mint Samuel Montagu.

we can double our size in minting," he said yesterday. He added that IMI would review the future of Birmingham Mint's engineering and elec-tronics subsidiaries once it knew more about them.

Birmingham Mint has suf-fered recently because of a weakening performance from its electronics and engineering subsidiaries. It reported pre-tax profits of £208,000 in the year to end March, compared with

IMI claimed yesterday that the smaller company would be unable to afford the capital investment needed to mint plated coinage, for which demand is increasing But Mr Tony Cross, Birmingham Mint's chairman, said IMT's claim did not stand up to seri-

ous examination.

He pointed out that disposals of the group's loss-making elec-trical contacts business and Birmingham head office had reduced the group's borrow-ings from £4.6m to £2m. IMI also questioned the sus-

tainability of Birmingham Mint's 20 per cent tax charge, but Mr Cross said the group would be able to offset the elec-trical contacts subsidiary's trading losses against its tas liabilities "for some years". Birmingham Mint is advised

### Sims buys Corton Beach food arm from receivers

urker

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finance

SIMS FOOD, the USM-quoted meat group, is acquiring Nor-pak, a chilled and frozen food wholesale and distribution business, from the receivers of Corton Beach, the food, leisure

and motor company.

The disposal comes less than two weeks after Mr Gordon Horsfield and other receivers from Price Waterhouse, the accountants, were appointed at

The value of the deal was not disclosed.

But Price Waterhouse appears to have taken into

account speed as well as money in choosing Sims' offer. It said customers and suppliers had indicated they would not continue trading with Norpak unless an early sale was

With annual sales of about 250m, Norpak accounted for 35 per cent of Corton's total turn-

losses, partly through start-up costs at Nisachill. This, a dedicated business for the Nisa retail group, is excluded from the sale.

# profits show 10% fall

DARBY GROUP, the USM-quoted maker and distributor of specialised glass products, saw pre-tax profits fall 10 per cent in 1989-90, but considered that satisfactory in view of the continuing difficulties in the building and build-ing materials industries.

Sales in the year to August 31 rose 36 per cent to 26.97m (25.13m), reflecting price cuts. The business was volume related and it was important to maintain market share, said Mr Michael Darby, chairman.

Mr Michael Darby, chairman.
Profit came to £870,000
(£967,000). The interim dividend is again 1.2p from earnings of 4.1p (4.4p).

Mr Darby said difficult conditions would continue for the next few months, so it was pleasing that gearing remained "comfortable at under 40 per cent."

remained "comfortable at under 40 per cent."

Results included a good contribution from the joint venture in Bent Tempered Glass, which was operating satisfactorily. Darby (South East), bought in December, continued to consider a non-grayiued to struggle in a poor envi-ronment and incurred trading losses of £170,000.
"We had difficulty in estab-

lishing a quality workforce", said Mr Darby. The business had been rationalised. Mr Darby said the date was close for the start-up of trad-ing operations in France.

### Increased losses at TDS Circuits

Losses at TDS Circuits increased from 21.08m to 21.22m pre-tax in the six months to August 31. The USM-quoted company, which has reported profits in only one of the last five years, said that actions to return to profit were proceeding well.
Significant investments had

been made to improve layout, handling and process control but these were taking place in an untrovourable market which was not expected to get better before the end of the year. percre the end of the year.
Turnover was lower at 23.41m (£4.32m) for an operating loss of £1.09m (£842,000).
After a nil (£374,000) tax charge the loss per share was 13.5p (7.82p) or 3.41p (7.81p) fully diluted.

# IMI makes £12m Darby sales Hope for the weakest company surge but David Thomas looks at the impact of local growth on South W

David Thomas looks at the impact of local growth on South Wales

South WALES Electricity is widely seen as one of the weaker brethren among the 12 regional electric-ity companies heading for their stock market debut in Decem-Not only is it the smallest

regional company, with sales last year of just 2604m, it also recorded arguably the worst performance when the compa-nies announced their final pubhic sector results in July. His-toric cost operating profit fell by 22 per cent to £21.2m in 1989-90; on a current cost basis the decline was 59 per cent to \$4.3m, giving a return on assets of just 1 per cent.

To make matters worse, South Wales lost fully 37 per

cent of its supply busine more than any other regional company, in the initial outburst of competition this year. Industrial customers, slow growing and liable to be poached, are more important to South Wales than to any regional company.
Its heavy dependence on

steel, coal, oil and chemicals underpins the judgment of UBS Phillips & Drew, one of the few large City firms not acting as a broker to an electricity concern, that "this com-pany represents a high risk investment compared to the average of the (regional) com-

Yet this may paint an unduly gloomy picture of South Wales's prospects in the private sector. True, like other regional companies, South Wales is heavily geared to its local economy because it derives the bulk of its profits from charges for electricity passing over its distribution wires. But it may be poised to benefit from a decade of local economic restructuring





Customer breakdown of sales

The region has broadened its industrial base through a suc-cessful drive to attract inward investment, notably from Japa-nese electronics companies. It has also begun to develop its small commercial sector, with organisations like the TSB and the Patents Office leading a

Domestic

industrial

Even heavy industry in South Wales has been trans-formed. British Steel's main plants at Lianwern and Port Talbot are now recognised as among the most efficient in Europe, while the round of ptt closures has reduced South Wales's exposure to British

Analysts are divided about the region's economic pros-pects, with Phillips & Drew predicting an economic perforWynford Evans: loss of supply commers not a big blow

Source: USS Philips & Dres mance in the 1990s slightly below the UK average and Smith New Court, South

Wales's brokers, forecasting

The company also insists that the loss of supply customers such as BOC, Wiggins Teape and ASW is not the blow it appears. Mr Wynford Evans, South Wales's loquacious chairman, has been busy all summer trying to reassure both opinion formers and the

company's staff on this point. The final supply of electricity to customers (as opposed to distribution along the wires, which remains a monopoly) is low margin business. South Wales says that it would have lost money if it had matched some of its competi-tors' bids for supply contracts

in its area. Yet the industrial bias in its regional base means that South Wales is vulnerable to an upsurge in large customers generating their own power. One estimate suggests that a quarter of all South Wales's industrial sales could fall to large combined heat and power schemes, severely reducing the flow of electricity along its

local wires. Industry observers are also divided about the quality of the management team around Mr Evans. Some see it as one of the weakest in the industry, while others point to the strengthening of the line-up in 1988 through the addition of Mr David Jones, who joined as managing director from South Western Electricity, and Mr David Myring, the articulate finance director, formerly with

The South Wales team was elated earlier this month by its success in fighting off a chal-lenge from National Power for the 15-year distribution con-tract for Cardiff Bay, one of the largest urban development pro-

grammes in Europe. The contract will have a sizeable impact on South Wales's core distribution business, where most of its profits are

One area needing management attention is the retail network, which made an operat-ing profit of just £200,000 on turnover of £28,8m last year. South Wales's shops have been among the poorer performers in the industry measured in terms of returns on turnover and on average net assets. It will be surprising if the company does not rationalise its retailing operations, particularly in sparsely populated



**PRIVATISATION** 

South Wales's capital spend ing · which jumped 34 per cent to £53m last year - is expected to plateau in 1992-93, reflecting

to plateau in 1992-83, renecting its programme of replacing ageing assets.

Mr Myring says gearing will worsen, but remain manageable. However, productivity increases and woderninged by a contract of the industry appears and underginned by average and underpinned by an 8 per cent cut in staff numbers to 3,770 in five years · may also be on the verge of flattening out.

Potential investors can take comfort from the efforts of the Government to compensate for South Wales's obvious weaknesses, Jointly with Manweb, South Wales has been given the easiest price control for-mula: it will be allowed to raise distribution charges by 2.5 per cent more than inflation each year. Its initial debt of £25m is the lowest of any regional com-

Moreover, some analysts believe that the shares of the smaller companies like South Wales could be in befty demand immediately after privatisation if institutions top up their portfolios of electricity stock. In the more medium term, many observers expect South Wales to be a candidate for takeover or merger. South Wales's size and structural vulnerability may not be all bad news for investors.

This is the third of 12 profiles of the regional electricity com-panies that the FT is publishing

# Mowat passes final after plunging to £651,000

the opposite.

By Clare Pearson

MOWAT GROUP, the USM-quoted property and let-sure company, is passing its final dividend after reporting that pre-tax profits plummetted from 26.9m to 2651,000 in

the year to end June.

The pre-tax figure was struck after a £5.72m interest charge which Mr Brian Dun-lop, chairman, told shareholdpany of your size", though he noted that none of the company's interest charges was capitalized.

Mr Dunlop admitted that at the interim stage when he had said he "viewed the second half . . . with optimism", he had wrongly anticipated an early fall in interest rates. The shares were unchanged yester-

Mowat's statement showed that turnover, year on year, had fallen £4.1m to £26.6m. The comparable interest charge was £2.6m. However, owing to a change in the company's year-end, other comparative

rigures were for the 15 months to and June 1889.

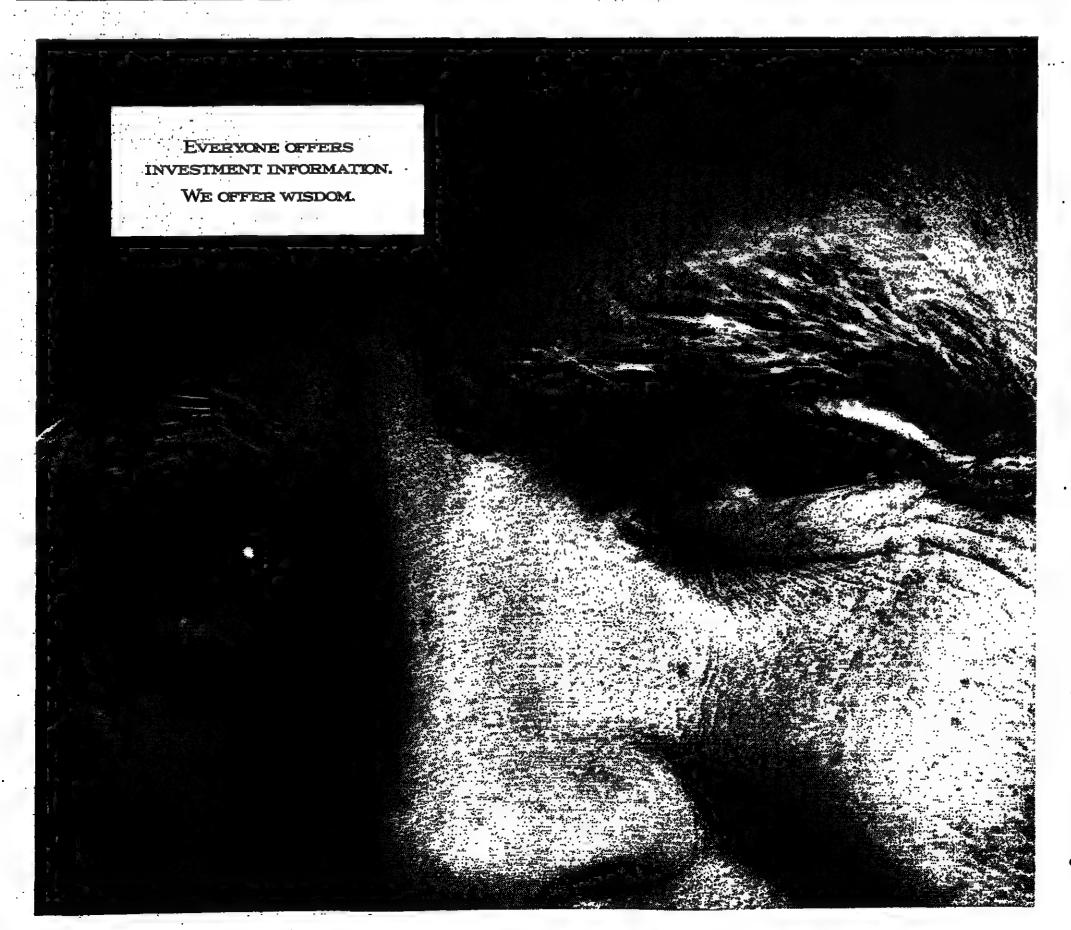
On this besis, earnings per share were down from 7.189 to 0.65p. Mowat paid a 0.5p

interim dividend, compared with total dividends of 1.5p for the 15 months.

On trading, Mr Dunlop said Mowat, in common with many other companies, had found it extremely difficult to sell commercial properties even though these had been successfully let. in the past, commercial prop-erty had been a major contrib-utor to profits.

Turnover from the holiday and leisure division was down, although Mr Dunlop said this reflected a shift to operating the sites on a commercial

Mowat's 24.75m shares and cash acquisition of former Third Market leisure company Pennant Group in June was concluded too late to affect



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### TECHNOLOGY

### Facelift for maths syllabus

A NEW flexible mathematics syllabus designed to encourage students to continue their studies beyond the age of 16 has been approved by the Oxford and Cambridge Schools Examination Board.

Examination Board.

The syllabus, the first of its type, was developed by the Mathematics in Education and Industry Schools Project. It encourages further maths studies by promising those who fail to pass A level exams at the end of two years that they will be eligible for some other sort of credential.

Roger Porkess, director of MEI, said: "One of the things that puts young people off maths studies is the prospect of studying for two years and having nothing to show for it." Porkess noted that the number of maths A level exam passers has fallen by 25 per cent since 1984 — a development which has constricted the numbers entering higher education to study engineering and other technological subjects.

The syllabus is designed to counteract that trend as well as to make studies more relevant to industrial needs. Those who fail to complete the course through to A level, for instance, would still be eligible to pursue engineering courses at most polytechnics and computing or information technology at many universities.

The syllabus is unusual in that it adopts a "modular" approach to maths studies, allowing students to complete components of the curriculum over a two-year period culminating in an A level exam.

over a two-year period culminating in an A level exam.

The syllabus allows those who find the material too difficult to drop their studies after, say, a year, and still receive a credential. For instance, those who complete three components will be eligible to sit AS level exams in maths and other components can be linked to BTEC divious.

BTEC diploma.

The Schools Examinations and Assessment Council has also approved the syllabus, saying it could be a model for studies in other disciplines attempting to increase staying-on rates. So far, about 30 schools have adopted the new curriculum, including the City of London School.

Norma Cohen

he Gulf crisis has sent tremors through industrialised countries which are heavily dependent on oil from the Middle East. Japan's economy in particular has come under scrutiny, from inside the country as much as from abroad. The result has been to help focus Japanese minds on the search for alternative

sources of energy.

One development has provided particularly encouraging results. This is in combustion trials in Japan of an emulsified fuel oil, made using the sticky, black oil tar found in vast quantities in the Orinoco river basin of Venezuela.

As well as being an alternative source of energy, the new fuel, called Orimulsion, promises to have price advantages over crude oil. The Venazuelans are marketing Orimulsion as "liquid coal" and anchoring its price to the stable price of crude oil, by comparison, is traditionally volatile, and has rocketed since the Gulf crisis began.

The development is particularly significant because around 50 per cent of the world's recoverable oil reserves are in these super-heavy oils and bitumens, found principally in Venezuela and Canada. Venezuela's recoverable reserves alone are said to be twice the size of Australia's coal reserves — equivalent to nearly 11 per cent of the world's known coal deposits.

The problem is that the tar's

The problem is that the tar's high viscosity makes transport and processing difficult and has limited its commercial amplication.

application.

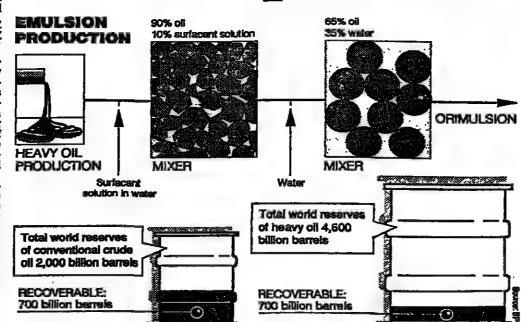
The initial breakthrough in broadening the use of the Venezuelan deposits, the world's largest, came with a patented two-stage mixing process invented jointly by British Petroleum (BP) and Petroleos de Venezuela (PDVSA), the Venezuelan oil company, in 1983. In the process water is mixed with the treade-like tor to produce a more manageable oil-in-water enuluion.

Since then, combustion trials of Orimulsion have been sponsored by Bitor, the PDVSA subsidiary set up to handle Orimulsion, at several power stations in Japan, Europe and North America.

The recently concluded Japanese tests were conducted jointly by Chubu Electric Power and Mitsubishi Heavy Industries, which is marketing Orimulsion in the Far East. They sought to evaluate the combustibility and handling properties of the fuel. The tests were conducted using a pilot

Roy Garner and Della Bradshaw on how 'liquid coal' is being used as an alternative energy source

# The discovery of a slick operation



plant which burned 4,500 metric tonnes of Orimulsion over a 4,000-hour operating period.

4,000-hour operating period.

Masayoshi Arakawa, manager of Mitsubishi's Orinoco
Project department, says the
results were so good that his
company is now beginning to
market Orimulsion to power
companies and large industrial
concerns such as steel and textile manufacturers.

A Photoch the field contains

Although the final contains approximately 35 per cent water it is easy to burn, because the 10 micron diameter of the oil droplets burns more efficiently than the 200 micron droplets produced when pure oil is forced through a nozzle in the traditional oil-burning power station, Also, the Orimulsion only needs to be heated to a maximum of 60 deg C before it is fed into the burner, compared with 130 deg C for oil. These two savings offset the heat lost through the evaporation of the water. Set alongside coal, Orimulsion has a 9 per cent higher heat content.

In addition to checking the

fuel's combustibility, the Japanese researchers studied the effectiveness of the flue gas treatment, needed to remove the relatively large amounts of sulphur and nitrogen present in the fuel. And they assessed the anti-corrosive systems used to combat the high levels of vanadium and heavy metals inherent in Orimulsion.

inherent in Orimulsion.

The research team concluded that Orimulsion has the equivalent handling properties and combustibility of heavy oils. They also confirmed that magnesium added to the fuel helped reduce the high temperature currision of boiler tubes caused by the presence of vanadium. However they cautioned that in "super-critical boilers" (the high-temperature, high pressure boilers widely used in Japan) further measures would be necessary to reduce corrosion by sulphur.

The levels of sulphur produced from burning Orimulsion could prove the one Achilles heel of the fuel. Mike

rkey, technical manager of

BP Bitor, which is marketing

Orimulsion in Europe, says the fuel has the same sulphur content as high sulphur-bearing mineral oils.

In Europe legislation has been introduced to force power generating companies to reduce significantly their sulphur emissions, and they are looking at ways of doing this. One process, which is proving particularly attractive in Japan, involves converting the sulphur into gypsum so that it can be made into wall board. Whichever method compa-

Whichever method companies choose to reduce suiphur is "purely a matter of economics", says Sharkey, who points out that the same sulphur reduction technology can be used for Orimnision as is used for coal or oil.

for coal or oil.

Arakawa is also optimistic.

"It is true an additional investment would be needed to revamp the sulphur extraction inclitties of conventional oil-burning power plants — but this would become a more attractive option with any rise in oil prices," he says.

Whether to convert existing

oil-burning power stations to burn Orimulation could be difficult costing decision, but Arakawa points to the changing environment that has arisen

awa points to the changing environment that has arisen since the Gulf crisis.

He believes that Mitambian's main market is not the conversion one. "We are introducing this fuel as an alternative option to coal and aim for the development of new custom-built plants."

option to coal and and for the development of new custom-built plants."

The Venezuelan classification of Orimulsion as a coal rather than oil substitute could help Arakawa. Japanese government regulations forbid oil utilities from constructing new oil-fired plants, so would-be Japanese Orimulsion users need to obtain a non-oil classification for the fuel.

So far they have succeeded. For the Chubu tests, Japan's Ministry of Finance granted the Orimulsion shipments the designation of "natural asphalt". Future shipments are also expected to be granted this provisional classification. Whatever the difficulties, commercial exploitation of Orimulsion is moving ahead in Japan. For a five-year period

mulsion is moving ahead in Japan. For a five-year period from mid-1991, the Kashima Kita power station, in central Japan, will use 0.25m tonnes of Orimuision a year, and Mitsubishi Kasel's plant, in Mizushima, plans to use 0.3m tonnes a year from late 1991.

There are equally ambitious plans in the UK, where Power-Gen's Ince plant, in Cheshire, will burn Im tonness of Orimulsion a year from 1991, as part of a programme lasting several years, and its Richborough station, in Kent, is also conducting trials. The move is part of Power-Gen's strategy to reduce its dependence on coal by developing a portfolio of faels, including natural gas and oil.

The Ince station has been converted to use Orimulsion from oil following initial trials two years ago of the bitumenbased liquid fael. Conversion was relatively simple, says Fower-Gen. The only significant adaptation has been the installation of electrostatic precipitators, to help remove the tiny particles of grims produced when Orimulsion is

Unlike the Japanese marketeers, PowerGen says that its tests have still to prove that Orimulsion could be economically and environmentally viable. Meanwhile National Power, the bigger of the UK's two power generating companies, is also examining the potential of Orimulsion. And in the US Florida Power and Light is planning to burn Orimulsion later this year.

# Open the coffers for UK start-ups

By Alan Cane

ithout an immediate injection of new funds, GTG Software, a tiny start-up company based in the UK's "Silicon Vailey", west of London, will be bankrupt by the end of the month. It is a new player in the desk-top publishing business, a fast-growing industry based on the power of the personal computer and the laser printer, which has revolutionised the printing industry.

printing industry.

What makes GTG different from many other companies facing a date with the receiver is the faith which other established organisations have in the product it is now struggling to bring to market. They include 3i, the UK investment organisation which has already commuted likely to \$500,000 in seed capital for GTG, together with International Business Machines and Aldus.

Machines and Aldus.

IBM, the world's largest computer company, has already concluded a joint marketing agreement with GTG and has made the company's "Data Base Publisher" package available through its dealer and distributor channels.

able through its dealer and distributor channels.

Aldus is the developer of "Page Maker", the best known desk-top publishing software for the integration of text and graphics. IBM and Aldus agree that Data Base Publisher fills an important market niche and should set the standard for database publishing programs — software which forms the link between electronic databases and desk-top publishing systems. The market for this kind of software will probably reach \$50m 2 year and GTG could take a large share, they

Yet despite these endorsements and prospects, GTG is in a parlous state and its directors stand to lose their houses, the collateral on their bank loans, if the company goes broke.

To be fair, with so much

To be fair, with so much goodwill going for them, it is unlikely that GTG will be allowed to fail. A lifeline of one kind or another is almost certain to be found. It is already considering whether it can find more cash to help the company out.

GTG's management is going through a difficult time but its predicament holds powerful



SPEAKING
lessons for entrepreneurs seek-

resons for technology projects in the UK.

The most important one, as Graham Sadd, GTG managing director, openly admits, is not to ask for too little money at the ouset. Si built in a safety margin but, even so, \$500,000 greatly underestimated GTG's

Sadd reckons he now needs another £2m in development and, more important, marketing funds to bring the latest version of Data Base Publisher to market.

One of the problems was that Sadd failed to predict a development in technology. His original version of Data Base Publisher worked with software called Gem. But Microsoft of the US then began marketing a new version of its Windows software which now seems likely to become the world standard.

world standard.
So GTG is working desperstely to produce a Windows-compatible version, but Sadd does not believe it will be ready before the second quarter of next year. Until then, there are tax bills to be paid and expenses to be met.

The mystery is why it should

and expenses to be met.

The mystery is why it should prove so difficult to secure comparatively modest funding for a product which seems cartain to prove successful and give the UK a much-needed boost in the packaged software market. IBM and others are interested in a stake but their due diligence procedures grind exceedingly slowly.

due diligence procedures grind exceedingly slowly.

Sadd has been investigating the possibility of US venture capital support and might well be forced to follow that route.

Is it any wonder that US companies dominate the European packaged software industry?



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When you travel a lot (and I think I spend more time in the air than in my office), a Sanyo book-type PC can really help to get a lot of work done.

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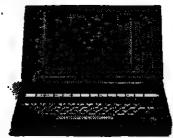
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### **COMMODITIES AND AGRICULTURE**

# Japan buying 70 tonnes of gold for coin issue

By Kenneth Gooding, Mining Correspondent

THE JAPANESE Finance Ministry is putting the finishing touches to a purchasing programme for about 70 tonnes of gold bullion (2.2m troy ounces) for 2m legal-tender coms it intends to issue next year to commemorate the coronation of Emperor Akihito.

The Ministry is believed to have bought ten tonnes in August, 40 tonnes in September (pushing Japan's total gold bullion imports to 62.99 tonnes, three times the September, 1989 level) and will end the programme by purchasing 20 tonnes this month.

Three intriguing questions are raised by the purchasing programme:

From where is the Akihito gold being bought?

• Why is the Japanese government not using some of the 100 tonnes of gold builion left over from the 650 tonnes it bought in 1986 for similar coins issued to celebrate the 60th anniversary of Emperor Hirohito's accession to the Chrysanthemum throne? (Since his death he is known as emperor

 Will the Japanese authorities complete their invest-igations into the alleged forging of Hirohito coins before the new ones are offered for sale?

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Some analysts suggest that the revelation that the Japanese government was buy-ing the metal in some quantity explains why physical demand in the gold market was strong in September and there was some tightness of supply. However, there are also

rumours that the Japanese have dealt directly with the Canadian central bank, which for some years has steadily been reducing its gold reserved. These transactions would not have had an impact in the market. The Japanese have hinted

that the 100 tonnes of gold left over from the Hirohito issue might be used for further legal-tender coins, perhaps one to commemorate the coronation of their Crown Prince. But some analysts suggest that by buying at today's relatively cheap prices — gold closed in London at \$368.25 an ounce last night - the Japanese could maximise their profit on the new coins. Gold averaged only \$368 an ounce in 1986 but the Japanese are believed to have bought at well over \$400 an

The Akihito coins will, aptly enough, be launched on April 1 next year - all-fools day -and will cost Yen100,000, or about twice the value of their

metal content at the current gold price in Yen terms. The Hirohito coins also had a legal-tender value about dou-ble that of their gold content and this, according to the Japanese authorities, encouraged

forgers to cash in.

These allegations were first made in January but so far the Japanese authorities have refused to give the international com market any definitive indication of how the sup-posedly forged coins can be identified. Mr Paul Davies, the British coin dealer embroiled in the affair and who has coins worth £600,000 impounded says that he can get no response from the Japanese authorities to his pleas for independent experts to be allowed to carry out further tests on the alleged forged

were scheduled to have been launched to coincide with the coronation next month. However, changes being made to reduce the risk of forgery have delayed the introduction Apart from increasing the gold content of the coins by half, to 30 grams a coin, compared with the Hirohitos, the Japanese will give the Akihito

The Akihito coins originally

# Mexico to fight US tuna ban

yellow-fin tuna fish from Mexico on the grounds that catching methods involve excessive killing of dolphins has raised the threat of unspe-cified retaliation from the extractions of the control of the catching in the catc authorities here.
The US Government has said

that it will appeal against a Federal Court ruling upholding an appeal by the Earth Island Institute based on the Marine Mammal Protection Act. The similar prohibition went into force against Panama early in September. Mr Jaime Serra Puche, Min-

ister of Commerce and Industry, said at the end of last week that the Mexican government would adopt unspecified "con-crete measures" in the the near future if the US Adminitration failed to quash the ban. in practical terms the mea-sure means little for Mexico's

the US is only worth about US\$1.5m at current values, about 15 per cent of the countries total sales of this fish, according to the Ministry of Fisheries here. But it is feared that the dispute could be an irritant affecting ferthcoming negotiations on a free trade agreement Both Mr Serra and Ma Maria

tonnes of time sold annually to

de los Angeles Morena, Minis-ter of Fisheries, have stressed that the conflict should be resolved by diplomatic means. At the same time the US Department of Commerce — with an equal concern about bilateral relations — is opposed to ruling by a federal judge in the California which went into effect on October 10. Legislation passed in 1988 barred importation of tuna from any country with fishing fleets killing more than twice as many dolphins as US tuns

US Department of Commerce officials conceded in the North

Californian court, where the judgement was made, that Mexican fishermen exceeded the kill rate in 1989 but said it had been lower than the maximum in the first half of 1990. The judge ruled, however, that the law required a decision on a calendar year rate. If the the number killed in 1930 was below the threshold level the embargo would be lifted for 1991, he said. An appeal to a higher Fed-

eral Court is likely by the Com-merce Department is likely to be made in the near future, according to the the State Department. Yellowfin tuna and dolphins

swim together in the tropical sone of the eastern Pacific Oceab and both get caught in the same fishing nets.

### Sri Lankan tea earnings up sharply.

in the first seven months of this year, compared with Re6.1bn in January-July period last year, according to a report by Forbes and Walker, leading

total tea sarnings this year will income, the report says. The reach Rs18bn, up from Rs13.7bm in 1989.

The substantial rise in prices about Rs61 to Rs32 a kilogram.

SRI LANKA has sarned a brokers, writes Mervyn de of tes of all grades, rather than record Railbn rupes (£140m) Silva in Colombo. the increase in volume, in the first seven months of . The report forecasts that explains the much higher

COCOA - Landon POX

### Norway expects big rise in oil output

NORWAY'S NORTH Sea oil production is expected to peak at about 2.3m barrels a day in 1995, up from the current 1.8m b/d, the Oil Ministry said yes-terday, reports Reuters from

"We now expect 2.3m b/d (in 1995) but there could be devia-tions and I do not rule out that it could be higher, for instance 2.5m b/d," Oil Ministry spokes-man Mr Egil Helle said.

man Mr Egil Helle said.

"The main reason for the increase is new fields coming on stream and more output from existing fields," he added.

But Mr Helle said the figure could change if Norway struck more oil on its continental shelf, which would prevent output from declining in 1996.

New fields like Snorre, to come on stream in 1992, would help boost production, he said. come on stream in 1952, would help boost production, he said. So would the Gyda and Hod fields, which started up earlier this year. Other fields to start production are Draugen in 193 and Brage, with planned output from January 1994.

"From 1996, production is expected to decline slightly," Mr Helle said.

Mr Helle said.
Norway is West Europe's second biggest oil producer, inter Britain. At the end of the the government-funded Petroleum Directorate estimated Norway's recoverable oil reserves at 12.38bn barrels. Mineral oil stocks in west ern Germany would be suffi-tient to meet end user demand for 146 days in the event of a breakdown in deliveries, the Federal Office of Trade and Industry said. Crude oil reserves totalled 21,695 tonnes and mineral oil product

reserves 15,813 tonnes on July 31. Emergency crude oil stock-piles were adequate to meet domestic consumer demand for

Putting flesh on Turkey's meat industry

Geoff Tansey on a project to improve yields from the sector

HEN NAFIZ Harman-kaya sold 42 lambs at the same time as his neighbour sold 52 this year, he

by disease or wolves, despite the sheepdogs with the spiked collars.

The Konya project aims to came out TL1m (£185) richer. He is one of about 40 sheep farmers in Turkey's Konya province profiting from the Konya Livestock Project, a government/UN Development Programme project run by the UN Food and Agriculture

Organisation.

Livestock production has been low yielding and the relative Cinderella of agricultural development in Turkey, with main the focus being on irrigation and field crops. Livestock development has been concentrated n introducing exotic cattle breeds to improve local herd quality, with sheep barely getting a look in. Yet in Konya there is a say-

ing which roughly translated means: "Wheat and sheep, the rest is for fun". It neatly sums up the two key factors in the provinces's economy, In summer in the wide Konya plains, the wheat is obvious. But there is hardly an obvious. But there is hardly an animal in sight. The province's 2.5m sheep are resting, huddled alongside village houses, or inside in sheep sheds, sheltering from the sun. Shepherds take them to graze overnight. The landscape is arid and scorched and grazing is scare. After harvest, the sheep

graze the stubble and grain left plus whatever meadow they

can find in winter, they are kept inside for lambing, fed on chopped straw until spring

when once again they go out. Some do not come back, felled

The Konya project aims to change that — increasing farmers' profits and meat production for Turkey. For two years a team of six agricultural extension workers and researchers have been working on the farm to improve sheep production, using well-estab-lished technologies that local farmers can use without major

Dr Thieme, the FAO chief technical adviser with the project, stresses the importance of real on-farm adaptive research in which farmers do the work and see if it fits their needs. The team has tested intensive fattening methods, improved housing, eg in ventilation of barns, and improved herd management. Their farmers no longer send lambs out in the spring but wean them early, feed intensively with farmer-produced grain and additional cotton-seed cake, and kill after two months. These lambs weigh 8 to 10 kg more than others sent for slaughter.

The team provides advice but not free inputs. Its members take weighing machines out to the villages and provide an automatic feeder for farmers but there it ends. Others have copied the ventilation and bought extra feeders. Now the team is busy trying to extend the results of this initial work to other farmers, to develop methods further and widen them to cover best and dairy cattle. Improved winter feeding is crucial and the team has tion should rise to 32.4 kg a head by 1994.

Turkey exports just under 3m live sheep annually. The



Urea-treated chopped straw is being tried for winter feed

some farmers trying urea- biggest market is Saudi Arabia treated chopped straw as a winter feed.

Konya alone, about 900,000 lambs go to market each year, If just 10 per cent of these were fed inten-sively and put on 5 kg more the extra 450,000 kg of meat would be worth about TI45hn (£900,000) in the butchers'

shops.

Overall Turkey has about 68m head of livestock, of which about 40m are sheep, 13m goats and 12m cattle, according to the first livestock census in 1984. Figures have not been published since then but another census is planned for 1991. Livestock productivity is improving according to State Planning Organisation offi-cials, who want to see better statistical reporting in the sector. Demand for meat is grow-ing in Turkey, which has a rel-atively low per capita consumption estimated at 26.9 kg in 1988. About 7 kg is poultry and just under a half of the rest is sheep and goat meat. According to the sixth five year plan, total meat consump-tion should rise to 32.4 kg a head by 1994.

with the rest going to other parts of the Middle East. The trade was worth almost \$230m in 1989 according to Turkey's Export Promotion Research Centre, with an average price per head for sheep in 1989 of

The Turks import very little sheep meat — none for the past two years — and only exported about \$30m worth in 1989. However, the government has allowed the import of large numbers of cattle on several occasions to meet local demand and reduce local prices. This, however, resulted in market instability with farmers slaughtering many cattle according to Mr Ahmet Arsan, general manager of Pinar Dairy Products, part of Izmir-based Yasar Holdings, which also owns feed, fertiliser, and meat plants.

By mid-1990 about 6.000 tonnes of skimmed milk pow-der and 100,000 cattle bad been privately imported for slaughter, mainly from Eastern Europe, and he expects another slaughtering round by Turkish farmers. Sheep seem likely to escape these fluctuations and with better produc-

# Minister resigns as Peru's agriculture crisis deepens

THE FIVE-day strike at state-owned Centromin, Peru's

(Prices expelled by Amaloumated Motel Tracing

By Saily Bowen in Lima

about 83 days.

PERU'S MINISTER of agriculture, Mr Carlos Amat y Leon, resigned unexpectedly at the end of last week amid fears that lack of financing for the coming agricultural campaign will lead to serious food short-ages within five months. No replacement for the minister had been announced by mid-day yesterday.

In a presentation to the sen-ate three days before he resigned, Mr Amst y Leon, a widely respected agricultural engineer, had painted a dra-matic picture of Peruvian agriculture in crisis. He estimated a credit requirement to the sec-

cial banks, however, will restrict lending to larger, established growers - cotton and sugar exporters mainly -on the coast. Small Andean

WORLD COMMODITIES PRICES

THE FIVE-day strike at state-owned Centromin, Peru's principal zinc, lead and silver producer, ended at the weekend. Workers settled for a moderate wage rise and all production units were back to normal working yesterday. The surprise stoppage, which never affected all the company's installations, was said by a company official to have been politically motivated and generally unpopular. "With the cost of living so high, a miner must now think very carefully before committing himself to a strike," he said. effectively broks. Recuperathe first time in thirty years, is being called upon to provide agricultural credit. Commer-

tions of losms made last year are expected to reach barely ten per cent of the their original value because of the sharp differential between subsidised agricultural interest rates and inflation. Under new, tight fisfarmers who grow most of cal policy, the Agrarian Bank Peru's food crops have always relied on the state Agrarian Bank is will no longer be able to raly with Mr Amat y Leon's resignation on the state Agrarian Bank is will no longer be able to raly with Mr Amat y Leon's resignation came those of a vice-spanic emission to supply credit to the sector as it did under the

Alan Garcia administration.
Other sources of financing are unpromising. The entire current liquidity of the Peru-vian financial system is estimated at only around \$500m. A possible \$100m loan from Vene-zuela has still to be negotiated. The departure of Mr Amat y Mr Amat y Leon warned that failure to find financing and the consequent necessity to import foodstuffs would jeop-ardise the entire government stabilisation programme with

political consequences.

The ministerial resignation was apparently due in part to presidential interference in high-level appointments. Along
with Mr Amat y Leon's resigsector is severely decapitalised.

potentially serious social and

ing and marketing bodies, Ecasa (the rice board) and Enci (for general foodstuffs). The two Amat y Leon appointees had aroused presidential suspicions of oligopolistiic connec-

Leon comes at an unhappy moment. By the end of Septem-ber only half the average agricultural area had been planted - and the deadline for sowing three-quarters of Peru's farmland is in December. Small farm production fell sharply last season with an unusually harsh drought which caused widespread hardship among sector is severely decapitalised with large numbers of live-

### MARKET REPORT

Aluminium prices on the London Metal Exchange yesterday surrendered most of last week's net gains as a wave of speculative liquidation revealed the paucity of consumer buying interest. The cash quotation closed at \$1,880.50 a tonne, down \$87, while the three month's price fell\$47.50 to \$1,769 a tonne. Dealers said sellers were fluenced by the current high. level of LME warehouse stocks and expectations that a further rise will be announced today. Buyers were also reported to be where the cash price fell to a 1990 low of £375.50 a tonne. At the London Futures and Options

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London Mar	Kets		
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Dubei Brent Blend (dated)	\$23.10-8.20y \$27.30-7.40		
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W.T.L. (1 pm est)	\$30.40-0.60y	-3.00	
Oil products (NWE prompt delivery per to	onne CIF)	+ 00	
Premium Gasoline	\$318-323	-30	
Gas Oil	3256-257	-6	
Heavy Fuel Off Naphthe	\$110-114 \$268-273	-18 -44 4	
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Other		+ or	
Gold (per troy oz)	\$368.25	42	
Silver (per troy cz)	421c 3415.0	-7 +43	
Platinum (per troy oz) Paliadium (per troy oz)	\$93.0	+0.2	
Aluminium (tree market)	\$1885	-190	
Copper (US Producer) ,	131c	+1	
Lead (US Producer)	50¢ 408c	+13	
Nickel (free marks) 'Tin (Kuele Lumpur markst)		+0.1	
Yin (New York)	257o	-	
Zinc (US Prime Western)	70a	4	
Cattle (live weight)†	100.170	-1.67	
Sheep (dead weight)	125,24p 72,84p	-4.63°	
Pigs (live weight)		+8.0	
London daily sugar (raw) London daily sugar (white)	\$261.0q \$318.0q	+20	
Tate and Lyle export price	2242.5	120	
	£118v	+0.2	
Maize (US No. 3 yellow)	2167		
Wheat (US Dark Northern)	291		
Rubber (Nov)♥	61.00p 60.75p	+1.0	
Rubber (Dec)♥ Rubber (KL RSS No 1 Nov)			
		+9.5	
Coconut oli (Philippines)5 Paim Oli (Majaysian)6	\$290w \$290w	+26	
Copra (Philippines)§	\$2052		
Soyabeans (US)	£141.5	+1.0	
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trom a week ago. **V**London physical market. CIF Rotterdam, 🗣 Buillon market close, m-Ma-

mission average fatatock prices. " change

Exchange cocca initially staged a strongish rally, following Friday's sharp fall. But by the close all the gains had been lost and the March position, which had reached £720 in the morning. was quoted at £703 a tonne, down £1 on the day. "The market is looking for direction and opinions There seems to be plenty of

are mixed," said one trader. there is concern about the political and financial situation in some

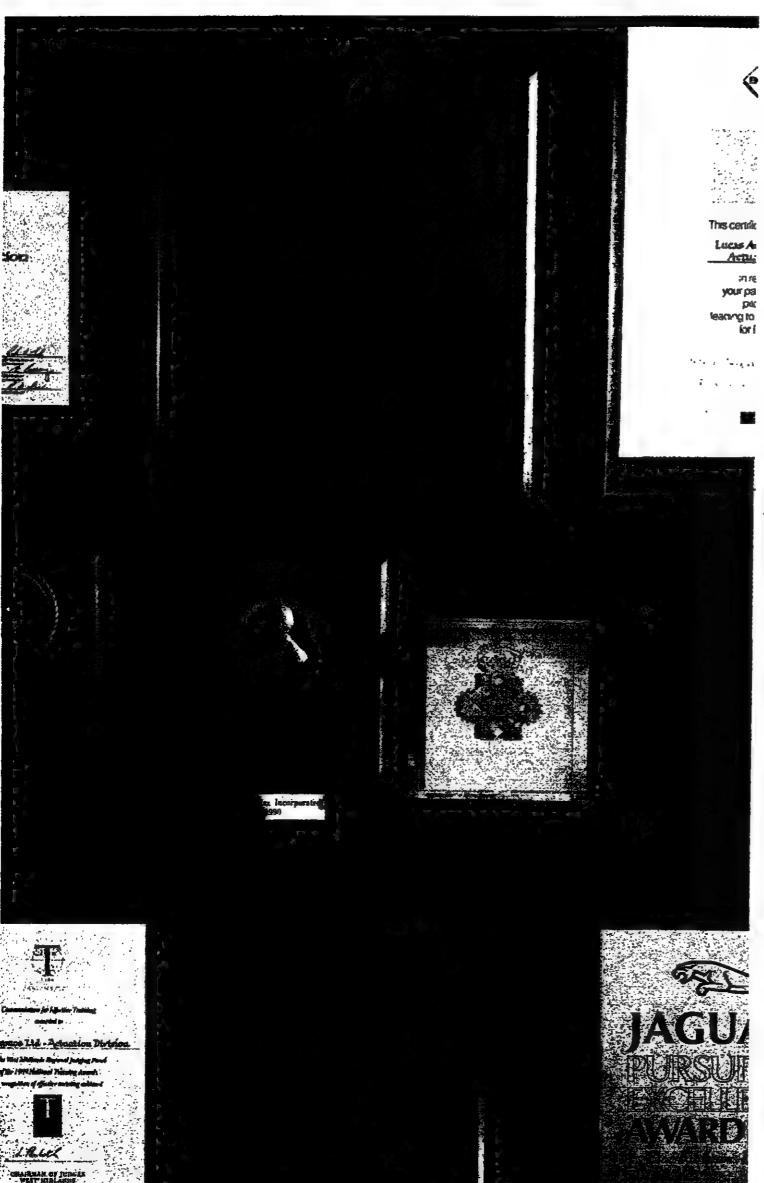
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-	Feb Mar IPE Inde Turnove GAS Of Nov Dec Jen Feb Mar Apr	25.00 24.35 33.95 7: 16065 ( L - IPE Listeet 244.00 237.50 228.00 229.00 220.00 193.00	28,98 33,54 (12880) Previous 265,76 280,76 272,75 257,50 242,25 227,50	27.52 24.85 28.00 24.25 \$/tonne High/Low 267.00 249.00 267.07 296.90 242.00 218.00 242.00 218.00 225.00 205.00 192.00	- CONSTRUCTION OF THE PARTY OF
-	Feb Mar IPE Inde Turnove BAS OF Nov Dec Jan Feb Mar Apr May	25.00 24.35 33.95 1: 18086 ( L - IPE Latent 244.00 237.50 229.00 220.00 205.00 193.00 190.00	28.98 5 35.54 (12880) Previous 286.76 290.75 272.75 257.50 242.25 238.60	27.52 24.85 28.00 24.25 \$7.00 243.00 290.75 295.50 254.00 223.00 242.00 218.00 225.00 218.00 225.00 192.00 212.00 190.00	1   のおおおおに   一日   日   日   日   日   日   日   日   日
-	Feb Mar IPE Indi Turnove GAS OI Nov Jen Feb Mer May Jue	25.90 24.35 33.95 16.085 ( L - FME Listest 244.00 227.50 228.00 220.00 220.00 193.00 190.00	28.98 35.54 (12880) Previous 286.76 280.76 272.75 257.50 242.25 227.50 228.60 226.00	27.52 24.85 28.00 24.25 \$7.00 243.00 287.00 243.00 280.75 236.50 254.00 236.00 242.00 218.00 225.00 192.00 212.00 192.00 105.00 190.00	
-	Feb Mar IPE Indi Turnove GAS OI Nov Jen Feb Mer May Jue	25.90 24.35 33.95 16.085 ( L - FME Listest 244.00 227.50 228.00 220.00 220.00 193.00 190.00	28.98 35.54 (12880) Previous 286.76 280.76 272.75 257.50 242.25 227.50 228.60 226.00	27.52 24.85 28.00 24.25 \$7.00 243.00 290.75 295.50 254.00 223.00 242.00 218.00 225.00 218.00 225.00 192.00 212.00 190.00	
-	Feb Mar IPE Indi Turnove GAS OF Nov Des Jen Feb Mer Apr Mey Jule Turnove Turnove	25.90 24.35 33.95 16.085 ( L - FME Listest 244.00 227.50 228.00 220.00 220.00 193.00 190.00	28.98 35.54 (12880) Previous 286.76 280.76 272.75 257.50 242.25 227.50 228.60 226.00	27.52 24.85 28.00 24.25 \$7.00 243.00 287.00 243.00 280.75 236.50 254.00 236.00 242.00 218.00 225.00 192.00 212.00 192.00 105.00 190.00	
-	Feb Mar Peb Mar Peb Mar Peb Mar Peb Mar Peb Mar Turnove TWA	25.00 25.00 33.95 or 18085 (L - 1996 Lesteet 244.00 237.50 228.00 229.00 229.00 205.00 190.00 190.00 7 13319 (*	28,98 S3.54 (12880) Previous 296,76 290,76 272,78 257,50 242,25 229,50 229,50 229,50 11888) lots	27.52 24.85 28.00 24.25 \$/tonne High/Low 287.00 248.00 250.75 236.50 254.00 228.00 242.00 218.00 225.00 205.00 220.00 192.00 212.00 190.00 of 100 tonnes	
-	Feb Mar Apr May Jea Turnove Turnove Turnove Turnove Turnove	25.00 24.36 24.36 27. 18085 ( Lusteet 244.00 227.50 228.00 228.00 190	26,98 33,54 (12380) Previous 295,75 299,75 272,75 257,50 242,25 227,50 228,60 225,60 11868) lots	27.52 24.85 28.00 24.25 \$7.00 242.00 287.00 242.00 287.05 285.00 242.00 218.00 242.00 218.00 212.00 192.00 212.00 192.00 102.00 192.00 212.00 192.00	
-	Feb Mar IVE Inde Turnove CAS OF TURNOVE TWA A grant Description of Twentove TWA A good better the text of the text	25.00 24.35 27. 18085 (L - IPE Letest 244.00 227.00 227.00 220.00 190.00 190.00 190.00 190.00 190.00 190.00 190.00 190.00	28,98 \$3,54 (12380) Previous 285,76 290,76 272,75 257,50 242,25 227,50 248,60 225,00 11968) lots citive marks sis a strong	27.52 24.85 28.00 24.25 \$7.00 242.00 267.00 243.00 267.00 243.00 254.00 258.00 242.00 258.00 242.00 192.00 220.00 192.00 192.00 192.00 of 100 tonnee	
-	Feb Mar IVE Inde Turnove CAS OF TURNOVE TWA A grant Description of Twentove TWA A good better the text of the text	25.00 24.35 27. 18085 (L - IPE Letest 244.00 227.00 227.00 220.00 190.00 190.00 190.00 190.00 190.00 190.00 190.00 190.00	28,98 \$3,54 (12380) Previous 285,76 290,76 272,75 257,50 242,25 227,50 248,60 225,00 11968) lots citive marks sis a strong	27.52 24.85 28.00 24.25 \$7.00 242.00 287.00 242.00 287.05 285.00 242.00 218.00 242.00 218.00 212.00 192.00 212.00 192.00 102.00 192.00 212.00 192.00	一
-	Feb May Jun Turnove	24.35 x: 18085 (L - FE Latest 244.05 227.50 228.00 220.00 190.00 190.00 for 13319 (for the period during a Brokert indians w	26,98 33,54 (12380) Previous 296,75 290,75 227,75 257,50 242,25 227,50 228,50 228,50 218,5	27.52 24.85 28.00 24.25 \$/zonne   Figh/Low 267.00 248.00 264.00 248.00 242.00 218.00 242.00 218.00 228.00 192.00 212.90 190.00 102.00 190.00 of 100 tonnes   prevailed, with g feature, reports on. Better quality poorted at 5-10e	一
-	Feb May Jun Turnove	24.35 x: 18085 (L - FE Latest 244.05 227.50 228.00 220.00 190.00 190.00 for 13319 (for the period during a Brokert indians w	26,98 33,54 (12380) Previous 296,75 290,75 227,75 257,50 242,25 227,50 228,50 228,50 218,5	27.52 24.85 28.00 24.25 \$/zonne   Figh/Low 267.00 248.00 264.00 248.00 242.00 218.00 242.00 218.00 228.00 192.00 212.90 190.00 102.00 190.00 of 100 tonnes   prevailed, with g feature, reports on. Better quality poorted at 5-10e	
-	Nov Des Jan Nev Jac A good better the Te north is described to the Text of the	25.00 24.35 24.35 27.18085 (  L - PE  Letest 244.06 237.50 193.00 193.00 190.00 r 13319 (  d but sale a Brekers indians w repass here	28,98 33,54 (12380) Previous 296,76 299,76 272,75 257,50 242,50 228,50 228,50 11888) lots ctive marks sits a strong ' Association well suj	27.52 24.85 28.00 24.25  \$/tonne High/Low 267.00 248.00 257.00 248.00 257.00 228.00 258.00 228.00 255.00 228.00 220.00 192.00 212.00 190.00  of 100 tonnes  at prevailed, with 3 feature, reports on. Better quality pported at 5-10s turn Assams	一
	Nov Dec Turnove  Nov Dec Turnove  Nov Dec Turnove  Turnove  Turnove  Turnove  Turnove  Turnove  terrior	25.00 24.35 27. 18085 (C.	28,98 33,54 (12380)  Previous 296,76 290,76 272,75 257,50 242,25 227,50 249,80 229,80 229,90 11888) lots sts a strong ir Association mediane well su p plain mediand pooret of	27.52 24.85 28.00 24.25  \$/tonne High/Low 257.00 249.00 250.07 258.00 254.00 258.00 242.00 218.00 225.00 205.00 225.00 192.00 172.00 190.00 170 tonnee  at prevalled, with 3 leasure, reports on Better quality pported at 5-10p itum Assame teerriptions	
-	Feb May Jun Turnove	24.35 24.35 27. 18085 ( L — FE  Latest  244.00 227.50 228.00 220.00 205.00 190.	26,98 33,54 (12380)  Previous 296,75 299,75 297,75 242,25 227,50 242,25 227,50 248,80 218,80	27.52 24.85 28.00 24.25  \$/zonne	100 M M M M M M M M M M M M M M M M M M
	Feb Mar India Turnové MAR Of Mar Apr May Jan Turnové TWA A good before tended continuity of t	24.35 x: 18085 ( L - PE  Latest 244.50 237.50 228.00 192.00 192.00 192.00 190.00 r 15319 ( d but selectindans we selectindans we repass had a senior a use to be more form for help to the more form for	28,98 33,54 (12380) Previous 296,75 299,75 272,75 257,50 249,66 227,50 249,66 228,00 1988) lots ctive marks sits a storey ' Association we well su plain mad and poorer of the plain mad and plain mad	27.52 24.85 28.00 24.25  \$/tonne  High/Low 287.00 248.00 287.00 228.00 255.00 228.00 242.00 288.00 225.00 205.00 220.00 192.00 212.00 190.00  100 tonnes  It pravalled, with a feature, reports on. Better quality ported at 5-10s item Assame feecriptions directs were but others were	100 M M M M M M M M M M M M M M M M M M
	Nov Dec Turnove Case Of Turnove Case Of Turnove Case Of Turnove Two Case Of Turnove Two Case Of Turnove Continutity If bursty If	25.00 24.30 24.30 25.20	28,98 33,54 (12380)  Previous 286,76 280,76 272,75 257,50 242,25 227,50 248,26 228,50 248,86 228,50 11888) lots sts a strong 7 Association are well su to plain med and pooret o reglected. A gitter sorts tith the exocu-	27.52 24.85 28.00 24.25  \$/tonne High/Low 257.00 243.00 254.00 256.00 254.00 256.00 242.00 218.00 225.00 205.00 225.00 192.00 212.00 190.00 no 190.00 of 100 tonnee  at prevalled, with a leasure, reports on Better quality pported at 5-10p ium Assame becoriptions furicans were but others were pution of central	
	Feb Mar IPE Inde Turnove GAS OF Nov Dec Jen Feb May Jea Turnove TWA A good better the To north I deared continuity fi barnish Arrism	24.35 24.35 27. 18085 ( L - FE  Latest  244.06 227.50 228.00 229.00 229.00 190.	26,98 S3.54 [12380] Previous 295.75 290.75 2272.75 257.50 242.25 227.50 242.25 227.50 248.80 225.00 11888] lots crive marks sis a strong ' Association of poore county plain med and poore county plain med and poore county in the exort ith the exort ich met gock	27.52 24.85 28.00 24.25  \$/zonne High/Low 267.00 248.00 267.00 248.00 267.00 268.00 242.00 218.00 225.00 205.00 225.00 205.00 212.00 192.00 21	100 M M M M M M M M M M M M M M M M M M
	Feb Mar IPE India IPE IPE INDIA IPE	24.05 24.35 27. 18085 ( L - PE 244.05 237.50 228.09 220.00 190.00	28,98 33,54 (12380) Previous 296,76 290,76 272,75 227,50 228,50 228,50 228,50 228,50 228,50 228,50 228,50 228,50 228,50 228,50 228,50 238,60 248,50 2	27.52 24.85 28.00 24.25  \$/tonne High/Low 287.00 248.00 250.75 236.50 254.00 228.00 242.00 218.00 225.00 205.00 225.00 182.00 212.00 180.00 no 100 tonnee  It prevalled, with a feature, reports on. Better quality pported at 5-10p item Assems descriptions diricans were option of central dicherand and is met improved	
	Nov Dec Turnove  Nov Dec Turnove  Nov Dec Turnove  Turnov	25.00 24.30 24.30 27.18085 (C. 18085	26,98 33,54 (12380)  Previous 286,76 289,76 272,75 257,50 242,25 227,50 228,60 225,50 11868) lots crive marks as a strong in Association med and poores of in the exos ich met goores tim the exos ich met goores tim the exos ich met goores ter tass de	27.52 24.85 28.00 24.25  \$/tonne High/Low 287.00 249.00 289.75 296.90 242.00 218.00 225.00 225.00 225.00 192.00 212.00 192.00 102.00 192.00 102.00 192.00 102.00 192.00 212.00 190.00 10	ON MANAGEMENT OF THE PROPERTY
	Feb Mar Mar Mar Turnove  MAR Of  Nov Dec Jen Feb May Jea Turnove  TWA A good better the To north I dearrey tander contint fully if burney Africas demant	25.00 24.30 24.30 27.18086 ( L - PE 244.00 237.50 192.00 1	28,98 33,54 (12380) Previous 296,76 290,75 272,75 257,50 248,26 227,50 248,26 228,00 228,00 228,00 238,00 248,00 2	27.52 24.85 28.00 24.25  \$/tonne High/Low 287.00 248.00 250.75 236.50 254.00 228.00 242.00 218.00 225.00 205.00 225.00 182.00 212.00 180.00 no 100 tonnee  It prevalled, with a feature, reports on. Better quality pported at 5-10p item Assems descriptions diricans were option of central dicherand and is met improved	

Close Previous High/Low 675 659 720 708 745 728 Turnover:4782 (10675) lobs of 10 tonnes ICCO indicator prices (SDRs per tonne). Daily price for Cct 19 802.29 (872.38) 10 day everage for Oct 22 907.88 (914.82) Case Sime Case Sime Limit SPC 563 **885 551** 80.0 142.3 162.0 urnover 306 (96) fots of 40 ton CYARGAN MEAL - BYE Etonne Cipes Previous High/Low 111.90 110.50 111.90 124.50 124.50 124.60 124.00 127.00 126.50 127.00 125.00 125.00 126.00 ver 111 (15) lots of 20 tonnes. Close Previous High/Low 1916 1540 1389 Sport I m I in 1315 1303 1330 1518 1300 1274 1340 1315 heat Close Previous High/Low Cod 114.60 114.15 119.00 118.65 122.55 122.20 126.00 125.65 127.65 114.60 114.35 Coo Previous High/Low 800 650 700 urley Close 112.10 113.85 117.80 117.75 120.65 120.75 113.20 113.10 117.70 117.60 120.60 mover: Wheat 244 (298), Barley 38 (138). (Cash Sessent) pring Close Previous High/Low 94.4 94.5 MAI 96.4 96.5 96.4 96.0

Turnover 18 (65) lots of 3,250 kg

			-			_	-		_ ,,,
	Close	Pre	vigun	High/Low	A	M Official	Kerb d	ose Op	en Interest
andries, l	M.7% party	S po	r toures)				Total day	y turnown	13,195 km
sh 1	678-63		5-70			82-5			
	768-70	181		1817/1765	10	TO-E	1705-71		496 lots
pper, Gra	de A (£ per to	me)					Total dal	ly turnove	22,475 lot
	385-8	138		1850/1976		74-6	-	404	1985 Jane
	364-5	135		1367/1353		154-6	1386-1		2,785 lots
ed (E per t				674 HTM			I DOME OF	шу штюч	er 1,965 lot
	974.5-6.5 979.5-8	384		371/370 390/377		M-2 78-7	379.5-Q.	76 10.	694 lots
abel (\$ per					_				er 2,529 lot
	900-60	860	N/80	8/75/6750	80	775-809			or injustry for
	680-75	632		6550/8350		100-25	8650-76	7,0	No.
(\$ per tor	nne)						Total de	By Eurnow	er 1,722 lob
sh 6	200-20	619	1-200	6200		80-60			
	220-30	6200	5-10	6245/8200	62	200-6	6225-30		68 icts
	High Grade	(\$ pa	r tonne)				Total de	ily barnow	or 3,647 lob
	345-50	1377		1337 1350/1333		37-8	1336-40	101	586 lots
	342-5	1360	-	(30% 1999	10	82-8	1930-40	192,	- FEE
E Closing OT: 1.9480		3 000	nite: 1.5	20	\$ a	OFFIX 1.5		9 ma	mthic: 1,879
		_							
HDON III	PLLION MAI	٠,							
	2 prices		E aquies	dest.					
100	368-368-2	_	188 h-18		N	ew Y	ork		
ening	3724-3724		191-191						
erning fix	368.50		189.052 189.317		GOL	0 100 troy	oz.; S/troy	0Z.	
y's high	372 4-372 4		Highwill			Close	Previous	High/Lo	NV
y's low	206 2 367				Oct	369.6	372.8	367.0	365.8
					Nov	370.2	373.5	0	0
					Dec Feb	372.4 378.5	375.7 379.8	375.0 370.0	368.7 373.0
					Apr	380.2	383.5	382.3	376.5
فص	S orten		E explor	ARTIS,	Jun	364.1 388.0	387.4	382.7	382.0 0
pielegi tannie	376-391 376-391		193-195 193-196		Oct	392.0	391.4 395.4	53.6	393.5
Eagle	376-381		193-196		Dec	396.1	399.5	363.5	382.0
gel	376-361		198-196						
Boy.	367-370 86-90		188-190 45-46						
Sev.	88-90		45-46		PLAT	NUM 50 a	roy oz; \$/tn	oy oz.	
bio Plat	419.95-426.6	5	215.10-2	18.50		Close	Previous	High/Lov	W
					Oct	412.3	407.7	412.0	409.0
					Jan	418.3	4127	422.5	411.0
					Apr	423.4 425.5	417.7 422.0	427.S 429.5	416.5 425.0
ver ik	priine az		US ots e	dnia	Oct	434.0	428.4	436.0	435.0
ot Continu	216.10		423.10						
DOOD IN	223.55 230.85		431.70						
months	244.16		457.40		SLVE	R 5,000 tro	y oz; cent	/troy oz.	
						Close	Previous	High/Low	,
					Oct	419.4	425.8	420.5	420.5
					Nov	420.2	426.0	D	0
ADED OF	NOME:				Dec	423.3	. 429.8	429.0	422.0 422.5
See .	Jan.	Ma	Jan't	Mar	Jan Mar	425.3 432.5	431.8 439.1	425.5 438.0	422.5
)	74	77	4	13	Ver	438.9	445.4	440.0	438.D
	87	45	17	31	315	445.0	451.4	440.0	445.0 450.8
	15	26	45	62	Sep Dec	461,1 480.0	457.B 466.6	451.8 465.0	450.8
F08	Dec	Mai	Dec	Mar	Jen	462.8	489.5	ē	0
<del>,</del>	65	118	5	15					
•	31	23	21	<b>3</b> 3					
•	12	56	2	53	HIGH (	BRADE C	YPPER 25,0	000 libe; cel	nte/libe
						Close	Previous	High/Low	
					Oct	127.00	126.70	127.60	126.50
					Nov	123.30	122.80	123 (40	122.75
ent Crede	Dec	Jen	Dec	Jen	Dec	117:20	117.50	117.00	116.00
<b>X</b> 0					Jan Mar	115.00 110.70	115.00 111.20	115.00 111.25	114. <b>60</b> 110.10
16 10	215			400	Apr	109.55	110.00	0	8
-					day.	108,40	108-85	108.70	108.00
					البال أول	107.50 106.70	108.05 107.25	0 107.20	0 108.50
					Aug	105.85	106.35	0	0

HUL	ME COL. (L.	ght) 42,000	US galls	S/berrel	CI	icag	0		
	Latest	Previous					000 by min;	cents/60lb h	مايس
7V 10	30.41	33.79 33.41	31.00 30.41	28.80 30.41		Close	Previous	High/Low	
n	26.95	21.95	28.05	28.95	How	810/8	811/4	616/4	816
6	27.67 25.49	30.67 39.49	27,72 27,20	27.67 26.49	Jan	825/4	825/6	681/4	62
	25,41	28.41	28.20	25.41	May	639/4	639/0	645/0	63
y	24,48	27.43	25.50	DL49	Jul	650/4 660/4	650/2	655/4	65 65
	22.82	25.89	24.00	22.62	Jug	657/0	656/0	861/0	65
П		12,000 US g	_		Sep	633/0 623/4	628/0 620/6	637/0	63 62
	LATER	TORNÍS MA	High/Lo				80,000 lbs;	conts/lb	
	7420 8582	8540 8182	8282 8200	7420 8582		Close	Previous	High/Low	
	5400	5000	8400	8400	Oet	21,97	21.86	17.67	21
	7559	8659 15150	7580	0 7589	Dec	22.07	22.15	22.25	22
	7109	7709	D	0	Jan Mar	22.56 22.83	22.48 22.91	22.54 22.96	22
	6750 6490	7359	0	0	May	23.19	23.25	23.32	22
	6379	7099 6879	8590 6450	6499 6400	Jul	23.30	23.45	23.50	23
	6399	6999	8475	6399	Aug Sep	23.40 23.32	23,47 23,36	23.50 23.40	23
j	A 10 tons	es;\$/tonner			Det	23.02	12.10	23.05	22
	Close	Provious	High/La	W	BOYA	BEAN ME	ML 100 tons;	\$/ton	
•	1184	1199	1211	1170		Close	Previous	High/Low	
	1242	1253	1284	1227	Out	182.9	107.1	1003.0	18
	1290 1318	1293 1327	1300 1320	1270 1320	Dec	185,3	186.1	187.5	18
	1348	1357	0	0	Mar	187.6 190.8	188.1 191.2	189.8 193.0	18 19
	1388 1423	1397 1432	0	0	May	407.6	192. <del>9</del>	TOCH	19
		,500lbs; cer	-		Jul Aug	193.3	193.9 193.9	195.0 195.0	19
					Sep	189.0	VIIII. 3	192.1	18
	Close	Previous 01.55	High/Lo		Oct	188.0	185.5	188.8	18
	93.00 96.35	91.55 66.05	93.40 96.75	94.60	MARZ	5,000 by	min; cents/5	6lb bushel	
	98.75	97.15	98.75	96.90		<b>2000</b>	Previous	High/Low	
	100.50 102.75	99,30 101,50	107,10	99.30	Des	230/2	228/2	231/4	22
	105.40	104.50	0	0	Mar	239/6 245/6	237/6 243/4	240/6 246/2	23
	105.50	105.25	0	0	Jul	249/5	247/2	250/2	24
	WORLD	<b>~11~</b> 112,00	10 lbs; ce	nts/lbs	Sep	248/0 249/0	245/2 247/2	248/2 249/0	24
	Close	Previous	High/Lo				min; cents/		
	9.92 9.91	9.65 9.70	9.99 9.99	9.72 9.74		Close	Provious		-
	9.94	8.74	70.00	9.80	Des	263/2	263/6	Highland	
	9.97 10.10	9.77	10.05	9.85	Mar	277/4	278/2	265/4 280/0	26 27
_		9,90	0	0	ALC: Y	285/0	285/4	286/8	28
9		cents/lbs			Jul Sep	289/4 294/0	290/2 295/0	291/4 296/0	284 294
	Close	Previous	High/Lov		Dec	304/4	306/4	0	ō
	74.53	73.23 73.63	75.20 75.00	73.40 73.80	LIVE C	ATTLE 40	.003 lbs; cen	ts/lbs	
	74.80	73.97	75.10	74.20		Closes	Previous	High/Low	
	74.90 68.15	74,00	75.05	74.20	Dec	76.75	76.92	76.92	76.
	66.85 ·	68.70	68.00 67.05	68.00 66.70	Feb	73.97	74.42	74.40	Ti.
	67.80	67.65	0	Ó	Apr	74.80	76.32	75.35	74.
ľ	E JUICE	15,000 lbs;	cente/lhe		AUG	72.62 70.90	72.95 71.25	72,95 71.25	72.
_	Close		High/Lov		Oct	71.25	79.30	71.52	70. IN.
_	112.25	110.20	110.05						
	108.45	107.60	109.60	110.25 108.00	LIVE H	OGS 30,00	0 b; cents/1	bs	
	109,70	108.55	110.40	109,00		Close	Provide	High/Low	_
	110.35 110.35	109.00 109.00	110.50 110.50	109.50 110.00	Dec	53.75			E2
				·	Feb	50.75	53.95 51.07	53.85 50.85	53. 50.
					Apr	47.47	48.05	47.85	W.
,	23				Jun	51.07	51.65	51.50	M.
_					Jul Aug	51,35 40.35	51.60 50.40	51.55 49.95	51. 49.
16	_	: Septembe		<u> </u>	Oct	45.40	57.17	0	45.
_	Oct 22		meth ego	y₹ <b>200</b>	PORK	SELLIES 4	10,000 lbs; ea	nts/lb	
	1724.7	1725.5	1787.8	1851.9		Close	Previous	High/Low	
•	ONES (8	198: Dec. 31	1974 -		Feb	65.75	III.II	66.60	65.
ì							100.1		U.J.
_	19	Oct 18	math eco	V7 900	Mer	<b>65.57</b>	67.00	86.60	85
_	19		mniit ego 129.52	131,34	May May Jul	65.57 65.82 64.85	67.00 67.10 66.10	66.55 65.35	85. 85. 54.



LONG TERM INVESTMENT IN AND COMMITMENT TO TOTAL QUALITY HAS ITS OWN REWARDS.

AND LUCAS QUALITY IS CLEARLY

APPRECIATED WORLDWIDE BY MAJOR

COMPANIES, SUCH AS BOEING, FORD,

IBM AND KODAK.

HIGHLIGHTS OF 1990 ANNUAL RESULTS

SALES	£2,334m	UP	7%
PROFIT			
BEFORE TAX	£191.2m	UP	296
EARNINGS PER SHARE (DILUTED)	20.2p	UNCHAN	GRO
TOTAL DIVIDEND	7.0p	UP 1	2%
RESEARCH, DUVELOPMENT			· .
AND CAPITAL	£234.8m	<b>∪</b> ₽ 2	. 19 5.4 <b>5 %</b>

### EXTRACT FROM CHAIRMAN'S STATEMENT

"THE LUCAS FINANCIAL RESULTS

ILLUSTRATE BENEFITS FROM THE IMPROVED

BALANCE AND PERFORMANCE OF OUR

INTERNATIONAL OPERATIONS — WHICH HAVE

ENABLED THE COMPANY TO ADJUST TO

MARKET AND OTHER CHANGES WHILE

INCREASING INVESTMENT FOR SUSTAINABLE

SUCCESS IN FUTURE. AS UNCERTAINTIES

CONTINUE IN OUR MARKETS WE ARE CONCENTRATING ON EXPLOITING OPPORTUNITIES

FOR ORGANIC GROWTH COUPLED WITH

EVEN GREATER DETERMINATION TO REDUCE

COSTS AND IMPROVE COMPETITIVENESS."

Lucas

•



TONY GILL.

THE COLOUR OF INNOVATION

127.4 (9/1/35)

1990.2 2463.7 986.9 (26/9) (3/1/90) (23/7/84)

Basis 100 Govt. Secs 15/10/26, Rixed int. 1928. Ordinary 1/7/25, Good mines 12/9/55, Sesis 1000 FT-SE 100 31/12/53, c 149 9-76

GILT EDGED ACTIVITY

1510.4 (24/9)

Gilt Edged Bergains

"SE Activity 1974.
†Excluding intra-market bush
& Overseas turnover.

London report and latest

(3/1)

(28/11/47) (3/1/75)

2008.8 49.4 (5/9/89) (26/6/40)

Oct 19 Oct 15

### LONDON STOCK EXCHANGE

# Slow response to improved trade data

figures for more than three years received a rather lukewarm welcome yesterday in a UK equity market held back by nervousness on Wall St over delays in the attempts to settle the US budget crisis. Hints in the market that a negotiated settlement between Iran and settlement between Iraq and Kuwait might be possible gave some help to London, however, as the first day of the new equity trading account came to

OCADBIE 2 PM

52.5

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 $\pi \in \mathbb{R}^{d}$ 

, · · ·

The market managed to regain the FT-SE 2,100 mark, but had to struggle to sustain itself above that level after tracing an erratic path in dull.

	A Charles	2
_ Apopta	it Dealing	PRINC
That Deallage: Oct 8	Oct 22	Mov 5
Option Declarat	Nov 1	Nov 15
Oct 19	Nov 2	Nov 16
Attourt Day: Oct 29	Nov 12	Nov 26
"Non-time deal \$30 am top bu	ngo may tuko Mosas dayo w	place from wifer,

Index closed 13 points up at 2,102.0, just below the best of the day. Equities hesitated during the morning, despite a potentially favourable backcloth of falling oil prices and firm performances by New York and Tokyo equities at the end of last week. The announcement

were no surprises," said

County NatWest's researcher Mr Pete Deighton, "and this is a commendable performance

from a cash generative group."
Aerospace activities compensated, as the market had anticipated, for shortfalls in other Lucas markets, particularly

automotive components. The problems in world motor mar-

kets have been well ventilated and industry sources expect

for the current period, exclu-ding property, and may lift the dividend. His previous profits

Barclays gained 5 to 362p after the bank denied newspa-

per reports that it was to split into two parts, one based on

domestic banking and the other on larger international business customers, and that a

rights issue was being contem-plated. Midland added 9 at 2039

estimate was £190m.

that Britain's trade deficit had shrunk to 5845m in September, compared with City forecasts of around 21.3hn, brought an immediate uptick, replacing a fall of 1.5 points on the Pootsie with a temporary gain of 8

But the advance was quickly trimmed in a market concerned over the apparent breakdown in the US budget negotiations which, London analysts predicted, could imply a fall of as much as 30 Dow points when Wall Street opened for business yesterday. In the event, Wall Street proved as erratic as London in early trading, opening slowly and fluctuating sharply before

FT-A All-Share Index

1100

Dow points in London trading hours. The UK market, having benefited when New York cut its early loss, held on to its improvement until it closed for

UK equities finally responded, albeit grudgingly, to the favourable, if somewhat muted, response to the domes-tic trade figures by British ling. But the most noteworthy feature of the day was the lack of investment business. Seaq volume reached only 336.4m shares, against 464.1m on Fri-

Market strategists appeared temperturbed by the equity

Siebe was mistaken to buy

Foxboro, the US automation

and control equipment maker, brought in a steady flow of

sellers and the shares fell 10 to

The market gave a guarded response to the sharp fall in oil prices, feeling that they were likely to swing back up again, and rises in the heavily oil-in-

fluenced transport sector were slender. British Airways only

picked up 2 to 148p on a turn-

Last week's bounce for

Davies & Newman, holding company for the Dan Air air-

line, on the appointment of a new director proved short-lived and the shares slipped back 15

However, Tiphook, the container leasing and trailer

rental company which has heavily underperformed the

market for some time, continued its recent rise to gain 11 to 364p as buyers moved in on what they consider an under-valued stock. Associated Brit-

ish Ports performed strongly, rising 7 to 214 as the market felt that the stock had been oversold and buyers moved in.

Stormgard, the office sup-

plies company, dipped sharply when short-term investors

elected to realise profits and the price closed 9 down at 24p.

The shares have recovered

strongly from last month's low of 14p, which followed the warning at the annual meeting

that mid-term profits were

to comment on the status of its

offer, which it extended to October 28. The water com-

pany also drew attention to the conditions of its offer regard-ing the reconfirming of Caird's

A profits dowgrading by Kleinwort Benson with the recommandation to be under-

weight brought Hickson Inter-national back 3 to 125p.

W. Canning was an even heav-ier loser at 88p, down 8, while USM-listed Darby Group

slipped 5 to 98p after revealing lower half-yearly profits.

W.H. Smith eased 2 to 385p after Laing & Cruickshank lowered its current year forecast to £33m from £95m. Ling said current sales are discon-

said current sales are disap-pointing and there could be a slow build-up to the important Christmas period.

Sainsbury rose a penny to 309p after County NatWest was bulleved to have found an insti-

tutional buyer of 2.2m shares. Aside from the County interest, dealers noted that Sains-

bury presents its annual results on November 7 and for the first time is having an ana-

smaller share sales.

over of 7.7m.

ing to good news yesterday. The September trade figures would "do no harm at all to hopes for another cut in interest rates before the end of the year," according to Richard Kersley at BZW. However, the market still wants to see the promised downturn in domestic inflation. "A fall in the headline inflation numbers

must be the catalyst for the market," said Mr John Reynolds at County NatWest.

Also largely ignored yesterday was the substantial dip in oil prices, but this could on further consideration prove a bullish factor for the stock lysts' meeting on the same day which, thought some market

sources, suggested an announcement may be in the offing. Asda was unchanged at 129p as some investors continued to switch from the ordinary stock and into the convertible Eurobonds. There was also some hedging in the traded options market against the switching.

following reports that Hanson was interested in bidding for

Wacs, a design and typeset-ting concern, slipped 6 to 185p after reporting the effective failure of its 100p a share rights issue. Of the 37 km new 8 per cent convertible preference shares, only 3.58 per cent were taken up. **Hunterprint's confirmation** 

unlikely to show a material profit before tax. A trader said yesterday the appearance of one sizeable seller triggered that refinancing talks were "at an advanced stage" helped the shares recover 10 at one point Continuing doubts over the Severn Trent Water offer for Caird caused shares of the lat-ter to fall 5 more to 52p. Severn sald yesterday it was not able before closing 5 better on the day at 23p.

Rank Organisation cancelled

Gold Mines

FT-SE 100 Share

Ord. Div. Yield Earning Yid %(full) P/E Ratio(Net)(\$\pi\$)

SEAO Bargna 4.45pm

FT-SE, Hourly changes

12.32 9.83

20,827 795.79 19,563 482.4

Open 9 am 1621.4 11 am 12 pm 1525.8 1677.8 1621.4 1619.5 1626.7 1628.3 1628.3 1631.2 1633.4

Open 9 am 2065.2 2065.3 11 am 12 pm 1 pm 2065.5 3 pm 2065.5 2065.

18,967

Ordinary Share Index, Hourly changes

12.35 8.81

18,005 724,37 17,338

19,232 682,34 17,222

306.7

Day's High 1634.7 Day's Low 1617.3

Day's High 2103.4 Day's Low 2003.9

TRADING VOLUME IN MAJOR STOCKS

Unilever improved 8 to 658p following the strong performance by Wall Street on Friday. Berisford was up 2 at 28p its sugar division. But dealers said that interest in Berisford had been low as Tate & Lyle will be allowed by the Monopo-lies and Mergers Commission to join any possible auction. Tate & Lyle fell a penny to 247p, while A.B. Foods, which has also expressed an interest in British Sugar, eased 1 to

Light demand in thin volume after a bullish report last week from a broker helped Reed international climb 12 to 357p. Turnover was 696,000. Pearson benefited too, adding 5 at 615p on high volume for the stock of 1.1m shares.

eetings with individual ana-Video Store became the latlysts in favour of a collective briefing on October 30. Traders est casualty of what leisure interpreted this as implying market sensitive information would be revealed. The added uncertainty left the shares 2

easier at 633p. Euro Disneyland stalled after last week's steady climb. The shares retreated 14 to 910p. Marketmakers reported a short position in Ladbroke after one of their number sold a block of 250,000 shares. Posttive press comment was also said to have helped. The shares rose 7% to 277p ex-dividend.
Turnover was 4m shares.
Rising hopes over the possible management buy-out at Goldcrest eff Brent Walker 9 higher at 7m ex-dividend after

higher at 70p ex-dividend after

analysts now recognise was an appailing summer for video rentals. It dropped 3 to 4p. Allied London Properties moved a penny lower on news of a near halving in annual profits. While the dividend total for the year was increased slightly, the company decided to make a £1.8m

FINANCIAL TIMES STOCK INDICES

provision in respect of its land bank, having reviewed the less than favourable market condi-Rosehaugh finished unchanged at 889 in spite of a sombre assessment by Klein-wort Benson of the company's joint construction venture with

Stanhope. The letting of four buildings in the Ludgate devel-

opment in London, announced

last week and which is part of the joint venture, was seen as encouraging, but went only part way to reducing the gap between servicing development debt on the project and rental income. Stanhope also closed unaltered at 86p.

Property development and investment specialists Water-glade International moved up sharply by 10 to 40p on news that the company has sold its interest in five property devel-opments in Germany for DM13m (24.4m). Waterglade sold its stake to reduce not borrowings, which now stand at

■ Other Market statistics. including the FT-Actuaries

### Renewed doubts on Cookson

CONCERN among sector analysts over the outlook at Cookson, the industrial materials group, increased on the news of the £160m sale of its 50 per cent interest in Tioxide Group

ide dividend of film, but the sale price stimmed researchers who had recently valued the stake at some £350m. The deal has the hallmark of a forced sale, according to one, and indicates Cookson's concern to get out of its ICI-shared venture, since it lacks the resources to fund a major capi-Although Cookson is evidently taking action to work its way out of debt, analysts believe this could take some years to achieve. Its markets are aluggish at present, and there are fears that the com-pany might have to turn to shareholders for funds. One specialist trader thought that a alimmed-down Cookson would be imattractive to a predator. However, others believed that yesterday's deal had improved Cookson's prospects and the shares stood up well. They fluctuated between 65p and 720 in heavy trading of 16m shares before closing only 2 off on the day at 68p.

### Hammerson weak

The release of half-year profthe resease of nanyear parti-ties by Hammerson Property was something of an anti-ch-max in the market, with a 12 per cent fall in pre-tax profits and an unchanged interim divi-dend of 3.5p. Traders were dissatisfied by the absence of spe-cific reference to the company's exposure to earn-ings in the US, Canada and

portfelio le nearly 60 per cent overseas-based, and there has been con-cern regarding the continued effects on earnings of any renewed rise in starling. The shares closed 8 lower at 550p on very light turnover,

### Lucas wanted

Reports of analysis' disappointment with the annual profits of Lucas Industries failed to upset the market. The shares firmed 8 to 117p in brisk trading volume of 3.3m. The UK aerospace to automotive components group revealed alightly higher profits of £191.2m, including a non-recurring net gain of £6.9m.
The figure was below the most optimistic expectations, but they found support, "There

**Managing** 

at Air UK

AIR UK has appointed Mr
Andrew Gray as managing
director. He joined last June
from Herts Europe where he
was marketing director. Prior
to that he held management
posts with British Airways
and Air Europe. Mr Strabast

and Air Europe. Mr Stephen.

the group board. He succeeds Mr Neil Forster who becomes

chairman of the Air UK Group

comprising Air UK, Air UK

Leisure, and An-UK

Mr James Jerram Was

for finance and planning,

writes Andrew Taylor.

Mr Jerram was finance

director of ICL, the British

between 1984 and 1987. He replaces Mr Derek Fowler, 81,

years. British Rail said Mr Fowler

the post of deputy chairman until Sir Bob Read, BR's new

chairman, could take up his

in financial management at SD Scieon and Sema, two

job. Mr Jerram has been involved

but had been persuaded to take

had planned to retire earlier

computer manufacturer,

who is leaving BR after 26

yesterday appointed director of BRITISH RAIL responsible

Engineering.

Hanscombe retires as managing director of Air UK, becomes non-executive chairman, and a member of

director

after favourable weekend pre comment. Abbey National and Lloyds, both strong performers

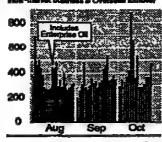
of late, dipped on profit-taking, with the former losing 4 to 212p and the latter 1 to 275p. Kleinwort Benson gained 3 to 284p in continuing response to its sale of the Premier Oil stake. First National Finance Corporation was down 12 at 176p on suggestions that S.G. Warburg had lowered its profit forecasts. Warburg refused to comment on the speculation. Highland Distilleries firmed

yet again on consideration of last week's deal which gave it

ast week's deal which gave it a stake in Rémy-Cointreau. Highland rose 7 to 232p.
Oil shares regarded the decline in the crude oil price with suspicion. Sector majors barely moved, or followed share indices a little higher. Analysts blamed the continuing uncertainty over how irag's occupation of Kuwait would be resolved. "The oil price could easily spike upwards again," said one. They added that the sector had been heavily sold last week. Shell firmed 4 to 453p and

reports of a bull position being taken in the latter by one player through the traded options market. BP was the fifth most active instrument in the traded options market, where contracts for the equiva-lent of 125m shares changed hands. Volume in the share market was 5m. Lesmo was 7 better at one point but ended unchanged on the day at 425p. Building issues suffered from a lack of turnover. It was only

the trend to continue. Never-theless, Mr Deighton predicts that Lucas will make £187.5m Equity Shares Traded Turnover by volume (million)



a late flurry of activity that allowed Pilkington (152p, up 2) and Blue Circle (also 2 firmer, at 213p) to each trade 1m shares. Turnac was the most active stock with 2m shares changing hands. But even this was conducted in a market was contacted in a harket lacking any fresh incentives.

Major dollar earner Cable and Wireless rose 7 to 430p on a 1.8m turnover as sterling fell and it was announced that the price of cables had increased.

Receil however shad 8 to 157m. Racal, however, shed 2 to 152p on a volume of 2.1m. Strate gists pointed to worries over selling of the company's shares in the US and said the stock had moved down to the extent that it was beginning to look

Concern over Hawker Siddeley's cash flow was blamed for a relative lack of progress in the shares which, in light trading, added only 1 at 392p in spite of the gangral firmness of the county sector.

1501, the engineering and

metal rathing group, shed 2 to 185p as downgradings on Frifiltered through to the market. An announcement that IMI was making a £12.2m takeover bid for Birmingham Mint, the Midland coin maker, in the form of an 85p offer for the ordinary shares and an 80p hid for the preferance shares was not seen as a significant factor in IMI's share price but brought a very positive response in the takeover tur-get, which shot up 23 to 63p.

The growing belief that

**NEW HIGHS AND LOWS FOR 1990** 

MEW PROME (4).

THE STREET (1) ENDUSTRIALS (4).

SHOWING (10).

MEN LOWS (10).

AMERICANS (3) CAMADIANS (3) BANKS
(3) SHEWING (3) CAMADIANS (5) CHAMICALS
(5) STORES (1) BANK DINGS (6) CHAMICALS
(5) STORES (6) ENGLISHED (6)

AND CHAMICALS (1) POURS (1) MOTELS (1)

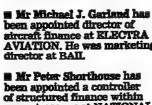
MOUNTENALS (1) Apolic Watch Products,

Adming Services, Author America.

software companies, since 1987. He will take up his post at BR

BBA, Bracapton Hidge., Cargo Control, Dauphin, Europopy, Gracapten Hidge., Johnston Group, Mahville, RPS, Stobe, T & N. Westerly, Nebranacce (1) LESBURG (3) MOTORS (1) NEWSPAPERS (3) PAPER (3) PROPERTY (1) SOUTH ARRICANS (1) TEXTILES (3) TRANSPORT (2) TRUSTE (14) OLS (4) OVERSEAS TRADERS (5) MINETA (14).

APPOINTMENTS



AT&T ISTEL FINANCIAL SERVICES, Redditch, has appointed Mr Dougie Martin (pictured) as business services director, banking services division. He was business development director of Failsade Roc, disaster recovery arm of AT&T Istel. Mr Mike Pickup has been appointed business development consultant, financial services division targeting the division, targeting the banking sector. He was responsible for introducing home telephone banking in the UR.

Mr M.H. Hayes has been appointed group managing director of BRITISH SYPHON, and Mr J.M. Yates, company secretary, joins the board.

HYPO FOREIGN & COLONIAL PORTFOLIO FUND SICAV has appointed Mr R.C. Elstob as chairman, succeeding Mr C. Arend who

aircraft finance at KLECTRA AVIATION. He was marketing

group treasury at NATIONAL HOME LOANS HOLDINGS. He was a senior manager at S.G. Warburg Securities. BRITISH AIR FERRIES,

Southend, has appointed Mr Barry Stone as managing director, engineering division. He was assistant managing director of Field Aircraft.

Mr John F. Valentine has become chairman and group chief executive of the recently formed FAIRMRAD GROUP. He was previously a main board director of Fisons and group managing director of Southern Water.

Henry Barrett Group subsidiary, DON REYNOLDS, Bradford, has appointed Mr Mark Sayers as managing director. He joins from Ward Group, where he was managing director of four of its subsidiaries.

 Dr Derek Schafer has been appointed chief executive officer and president of BRITISH TECHNOLOGY GROUP USA. He was

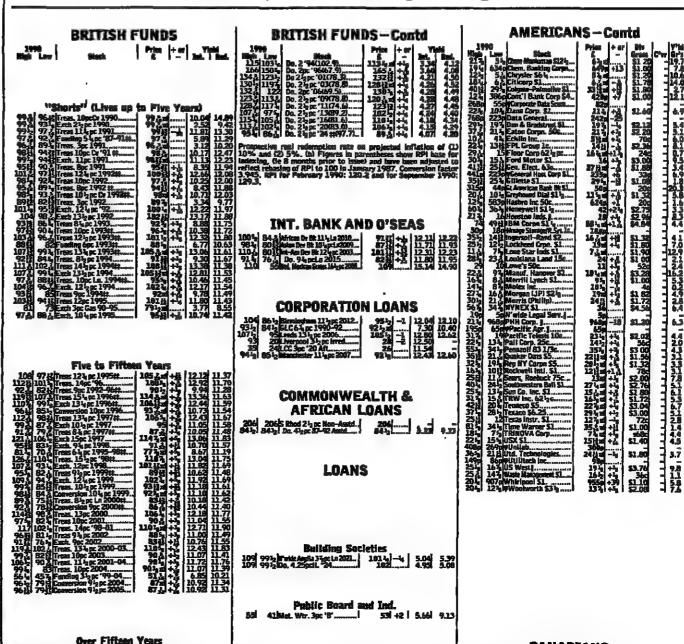
previously operations director with responsibility for all BTG's operational activities

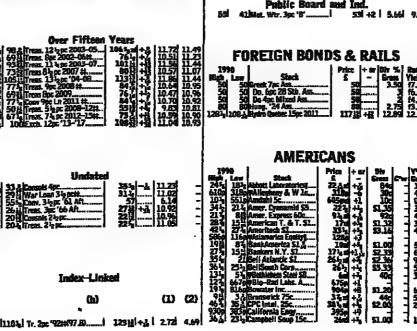


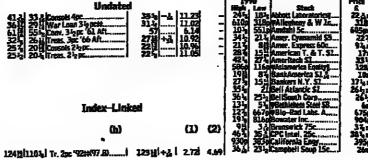
Lord Elliott of Morpeth (pictured) is to chair the new joint board recently-formed by the integration of the NEWCASTLE AND GATESHEAD WATER NEWCASTLE COMPANY and SUNDERLAND AND SOUTH SHIELDS WATER COMPANY. The vice chairman is Mr D.S. Gray, currently chairman of Sunderland and South Shields Mr Hugh Speed, managing director of Newcastle & Gateshead Water Company, has become managing director of the integrated management team. Both companies are owned by Lyonnaise des Ranx-Dumez Group.

made managing director of THE SELSON MACHINE TOOL CO.

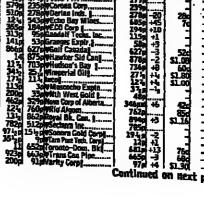
### LONDON SHARE SERVICE

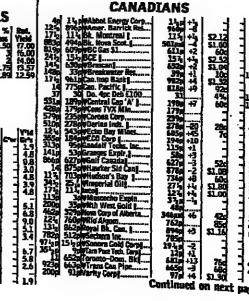












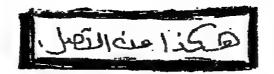
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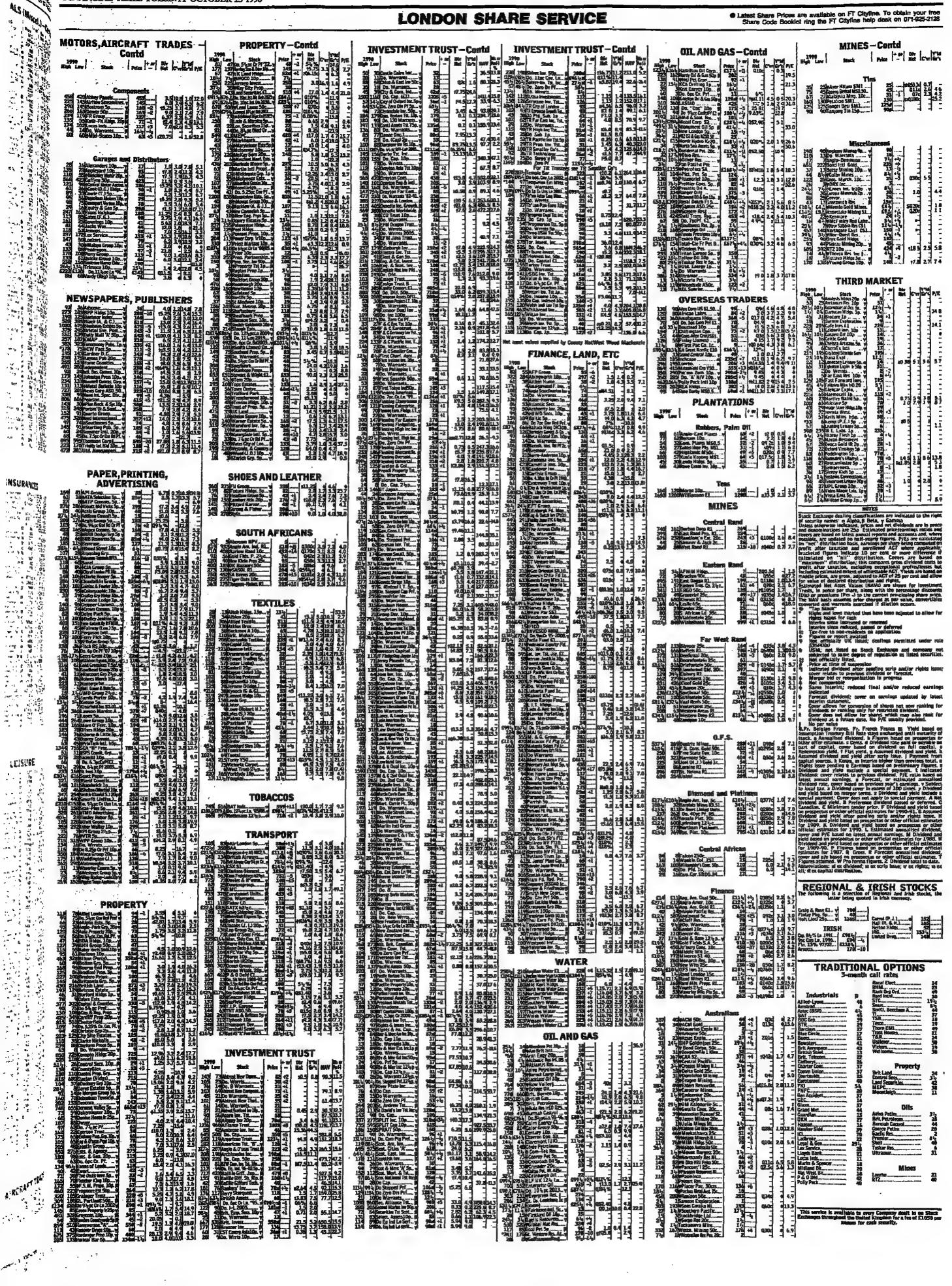
	LONDON SHARE SERVICE	<ul> <li>Latest Share Prices are available on FT Cityline. To obtain your tree Share Code Booklet ring the FT Cityline help desk on 871-925-2128</li> </ul>
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Current Unit Trust Prices are evallable on FT Cityline. To obtain your Link Trust Code Booket ring the FT Cityline help deek on GT-625

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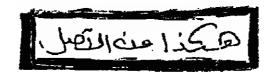
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Money Market

**Money Market** Bank Accounts

**Trust Funds** 

MONEY MARKET FUNDS

# Dollar and sterling rally

THE DOLLAR was firmer on the foreign exchanges yester-day while sterling improved from a shaky start after better than expected UK trade figures. The US currency was supported by short-covering after its recent fall to a record low against the D-Mark and the lowest for nearly 2 years in

terms of the Japanese yen.
Lack of fresh economic news
helped at a time when technical factors were boosting the
dollar. Its index rose to 60.4
from 60.2. The dollar broke through resistance at DM1.5150 and closed in London at DM1.5160 compared with DM1.5025 on Friday. It also improved to FFr5.0750 from FFr5.0350 and to SFr1.2805

rom SFr1.2655
Continuing discussions about the US budget deficit had little impact on trading, but a sharp fall in oll prices gave support to the Japanese yen. The dollar rose slightly to Y126.00 from Y125.90 at the London close, but the D-Mark fell to Y33.10 from Y33.80.

Sterling opened weaker and then rallied after the September UK trade news proved much better than expected. The current account deficit of £845m was a considerable improvement on the August shortfall of a revised £1.199bn and was also well short of mar-

Close	Previous Clase
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S AF (Fa)	7.2340 - 7.3710 53.25 - 53.35	3.7035 - 3.7735 27.25 - 27.30
UAE	7.1440 - 7.1790	3.6710 - 3.6740
B Salibon - ste		

ket estimates of around £1.3bn. Lower imports, coupled with higher exports and rising reve-nue from North Sea oil, led to the improvement. It was the best figure since April 1987. encouraging hopes that the current account deficit for this year will show a narrowing from the 1989 figure of £199n.

There was some optimism in London yesterday that the figure for the full year could be as low as £16.5bn, but that the Treasury's £15bn target is unlikely to be met. In the third the treasury the treasury that the third the third that the third t quarter the trade gap - including invisible items - fell to \$3.8bn, from \$6.2bn in the same quarter of last year. The deficit for the first nine months of

1990 was £13.57bn.
The pound had fallen to a low of DM2.9325, before the release of the trade figures, but it rallied to finish around the highest level of the day at DM2.9550 compared with

DM2.9450 on Friday. Sterling also rose to FFr9.8900 from FFr9.8650 and to SFr2.4950 from SFr2.4875; it fell to Y245.50 from Y246.75 against the firm yen. The pound also lost 1.05 cents to \$1.9490, while

its index eased 0.1 to 94.4.
Figures released by the
European Commission showed sterling only slightly above the bottom of the European Monebottom of the European Mone-tary System exchange rate mechanism. The lira was the weakest member, with the pound 0.03 per cent higher. A fall in short-term Italian rates had an unsettling impact on the lira, but it improved slightly against the D-Mark at the Milan fixing. The D-Mark was set at L749.12 against L749.49 on Friday. The French franc had a firm

The French franc had a firm tone ahead of today's French trade data for September. The D-Mark fell to FF13.2485 from FFr3.3502 at the Paris fixing.

	Ezu central rates	Carrency amounts against Een Oct 22	from central mate	CTLARGES ACTUAL PERMIT AS MANAGED TO A MANAG	Divergence indicator
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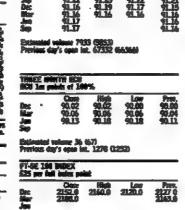
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#### FINANCIAL FUTURES AND OPTIONS

	UFFE LINK CALT FUTURES OFTENS 50,800 640s of 100%.				LIFFE 1880 FUTURES SPITINGS SHESS,930 points of 100%				\$100,00	LIFFE US TREASURY BOIR FUTURES OPTION \$100,000 640s of 100%				
	Dec 3-19 2-29 1-46 1-20 0-44 0-25 0-15 0-15		Pub-sets 0ac 0-13 0-23 0-40 1-62 1-38 2-19 3-09 8-01 1-30 Pats 1 570 Pats 25	128 0-5 1-60 1-60 1-60 2-13 3-3 4 4 823		0.22	225 199 199 132 108 0.90 0.72 0.56		MAR 0.61 0.76 0.95 1.18 1.44 1.76 2.06 2.42	Serte Price 36 89 91 92 93 94 75 Estimate Previous	2-15-set De: 3-43 2-55 2-06 1-31 0-40 0-26 0-26 to/10 open in	Mar 3-58 3-17 1-07 1-07 1-07 1-05 1-05 1-05 1-05 1-05 1-05 1-05 1-05	Pats-set Dec 0-27 0-39 0-54 1-15 1-77 2-24 3-10 4-00 0 Pats 15 12 Pats 24	MAI 1-04 1-27 1-25 2-29 3-35 4-63
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LIFFE 1880 FUTURES SPYTING SH256,030 points of 100%	LIFFE US TREASURY BOND FUTURES OPTIONS \$100,000 640s of 100%				
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LIFFE SMORT STERLING OFFINIS ES30,080 paints of 100%	LEFFE EURODILAR OFTENS				
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FX-INTERNATIONAL SEARCH CONSULTANTS

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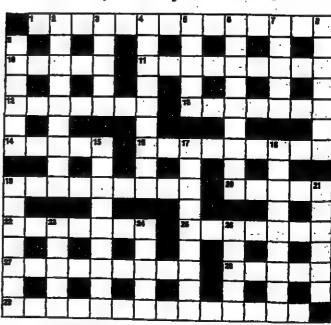
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#### **CROSSWORD**

Yedail & Co Ltd

No.7,374 Set by CINEPHILE



- ACROSS

  1 Study Wagner's operas in project needing heap of magical work (9,5)

  10 Student well versed in Russell? (5)

  11 One may get different entrance fees (4,5)

  12 God has prince as officer (7)

  13 Grass required for sea-port (7)
- (7) 14 Guess of considerable girth (5) 16 Mild monarch losing gold in
- gallery (9)

  19 Weapon outside dress causes profanity (9)

  20 More outside? (5)

  22 A had school takes some fill-
- ing (7) 25 Essential fuel end is pos-
- sible (7)

  27 Man on council put to death in place of soldiers (9)

  28 Come again about dog (5)

  29 Tottery devices used to make mystery (9,5) 2 Piece for plane or melody in
- 2 Piece for piano or melody in right time (9)
  3 Prophecy of bad luck? (5)
  4 Aquatic beast without much logic turns up for opera (9)
  5 Form of inert chemical (5)
  6 Ticker requires peace with enemy, we hear (9)
  7 Top off meal between bull and magnic (5)

and magnie (5)

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**JOTTER PAD** 

- test? Don't say a word (4.2)

  15 Old medicine used by father in case of sick corg! (8)

  17 Motorway eating place for Prench sales gir! (9)

  18 Crafty I am, craftler I may become (9)
- 19 Two points to give away from land (7)
  21 Attraction of a pound when

rule is broken (5)

28 A rebellion with little time to check (5)

24 Gordon's foe turns up food for princess (5)

26 Bird to apologise for losing head (5)

Solution to Puzzle No.7,373

GUARDIAN LEVIEN
E A A R C U M O
MALAN KATREGANU
T S C I V C P
RETRIEVER TUTTI
V O M C U M
STAGED CHIDING
E U C C
EVELASE SUTTION
I M O M C U
E

#### **MONEY MARKETS**

#### Better on trade data

THERE WAS an easing of longer term interest rates in London yesterday after better than expected UK trade figures

for September.
A narrowing of the trade deficit pulled 12-month sterling interbank down to 137 137 per cent from 134-134, but the data did not encourage any hopes of an early cut in bank base rates and the important three-month rate had a slightly firmer tone at 1311-1311 per cent

UK clearing bank base lending rate 14 per cest from October 8, 1995

against 13%-13H.
Short sterling futures improved on the trade figures.
December delivery opened lower at 86.50 on fears of a large deficit, but touched a peak of 88.63 on the lower than feared trade gap, before closing at 86.57 compared with 86.52

previously.

Day-to-day credit was in fairly short supply on the London money market. The Bank of England initially behaviors of \$750m. forecast a shortage of £750m, but revised this to £650m in the

Total help of £550m was provided. Before lunch the authorities bought £339m bills outright, by way of £31m bank bills in band 1 at 13% per cent; £25m Treasury bills in band 2

at 13% per cent; and £283m bank bills in band 2 at 13% per

cent. In the afternoon another £126m bills were purchased, via £36m bank bills in band 1 at 13% per cent and £30m bank bills in band 2 at 13% per cent. Late assistance of around £55m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £1,009m, with exchequer transactions absorbing £240m and bank balances below target £70m. These outwelghed a fall in the note circulation adding £545m to liquidity.

In Frankfurt call money rose to 8.05 from 8.025 per cent as tax payments drained funds from the money market. This drain on liquidity led to a fall in banks reserve holdings at the Bundesbank to DM63bn from DM66bn last Thursday. The tightening of conditions has also caused banks to increase their borrowings, under the Lombard emergency facility, to DM9.1bn on Friday from DM4.7bn on Thursday.

In Amsterdam the Dutch Central Bank left the interest rate on special deposits unchanged at 8.0 per cent when offering three-day funds to the money market. The new pact on special deposits will replace an expiring eight-day facility worth Fl 5.0bn.

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01.00 am 0ct 22	3 months US deltars	ó mentis	US Bollars
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Treasury Bills (sell); one-next; Bank Bills (sell); on Average brider rate of disc day October 8.1990. Asy g.c., Scheme IV &V: 14.925 p.c. days fixed. Flames House seven days notice 4 per cashed under one month 101s straight on the self-next posts of the condition of the condit	te-month 15: out 13.189; red rates for 5.21 p.c. Ref 5. Local Auth 5 Base Rate 1 nt. Certificat per cent; on 1; nine-twelve	if per cent.  7 p.c. ECGC period Oct wrence rate from Oct es of Tax C e-three more months 12	; three mo ) Flaed Rat 24,1990 i e for perfor Intance Hore Lober 1, 19 Deposit (Se Intis 12 per 2 per cent:	nths 13 % p te Sterikus E to Ngv 25 d Sept 1,19 ten saven da 190: Barak D ries 6); Dep	er cent, Tre sport Finan 1990, Sche 90 to Sept gra' notice, eposit Rates esit £100,0	resery 61lls; pe. Make us pet t. 15.78 28. 1990, others seven i for seven 50 and over 12 per cent:

#### Trading Places International All males Some minor nal, 13 Crares Street, London WC2 5PB 071-839 5007 LEGAL NOTICES **NOTICE OF ADMINISTRATION** ORDER IN THE MATTER OF THE MISOLVENCY ACT 1986 and Former company name: DOVETAL SECURITIES SAFE & LOCK COMPANY LIMITED HARMS OF DESCRIPTION & DECURITY CONSULTANTS

FOR

-
Finglehred No. 218/265, Gorden Furniture Renufschurers. Irade Classification 09.
Hotice is hereby given that under an Admin- letration Order sands on the 12th day of October 1990, E. Klempin, and M. J. Moore of
Cork Gully, Albico Court, 5 Albico Phace, Leads LST 6JP, were appointed Joint Admin- latinators of the above company.
and the state of t

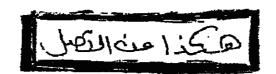
ALPHABET PRODUCTS LIMITED

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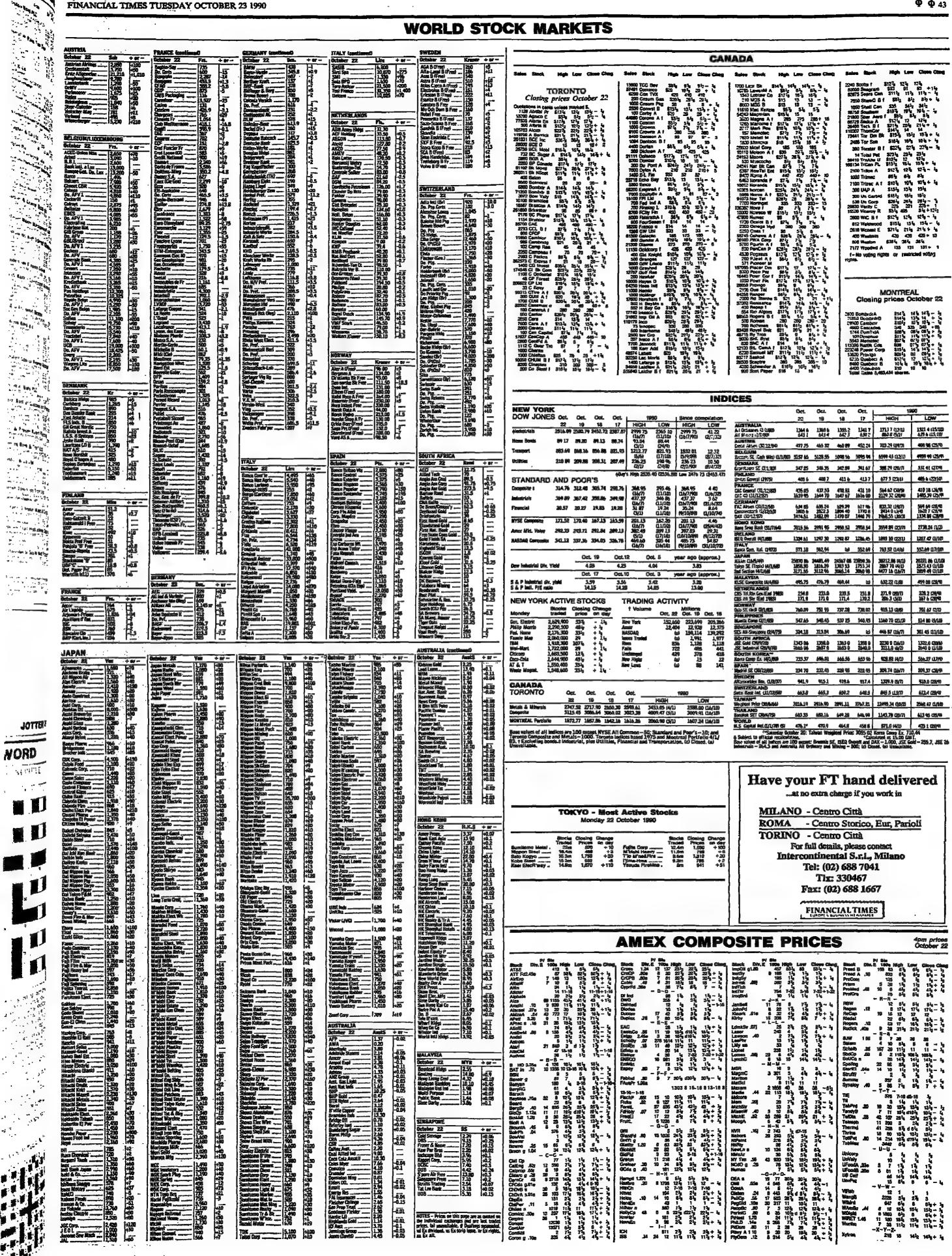
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#### WORLD STOCK MARKETS



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**NEW YORK STOCK EXCHANGE COMPOSITE PRICES** 

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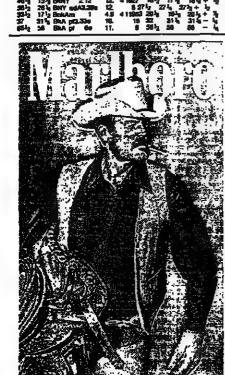
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PHARMACEUTICALS

21st November 1990

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# Weekend budget worries lead to morning decline

#### **Wali Street**

THE INABILITY of budget negotiators to reach an agree-ment over the weekend helped push equities broadly lower yesterday morning in spite of a sharp drop in oil prices, writes

Karen Zagor in New York.
In morning trading, the Dow
Jones Industrial Average plunged more than 32 points before recovering somewhat at mid-session. At 1.30 pm, the Dow was 6.43 lower at 2,514.36 on volume of 97.65m shares. On Friday, the Dow was 68.07

higher at 2,520.79.
In spite of the sharp drop in the Dow, the overall tone of the market was mixed. On the big board, advancing issues led those declining by a ratio of four to three. The American Exchange composite was 1.20 lower at 292.51 at 1pm, but the Standard & Poor's 500 improved 0.28 to 312.76.

Oil prices plunged on uncon-firmed reports that Iraqi troops had withdrawn from parts of Kuwait. At mid-session, November crude oil dropped

\$4.29 a barrel to \$29.50, exacerbated by the expiration of the Vovember contract. Federal Home Loan Mort-

gage (Freddie Mac) added \$1% to \$33% after losing \$8% late last week after the company said it would take third quarter charge offs of \$124m against reserves on its multi-family and single-family mortgage portfolios.

General Electric dropped \$1% to \$54%. Other financial-service stocks have been hit by the bearish market environ-ment and there are fears that General Electric would not escape a similar fate. However, General Electric said it should post double-digit earnings per share growth in 1990.

Great Lakes Chemical dropped \$2% to \$53%. The company attributed the sell-off to profit-taking in the absence of any major news. Among equities to post the sharpest gains in morning trading, Gitano Group Jumped \$1% to \$13%. The company said it knew of no reason for

the movement.
In the secondary market, the

NASDAQ composite rose 2.48 to 339.84 at mid-session, with trading led by technology issues. Conner Peripherals led the most active list, climbing \$1% to \$21%. MCI Communications improved \$1% to \$29% while Apple Computer slid \$%

to \$31.

TORONTO stocks remained unchanged in light trading at midday. The composite index rose 1.4 to 3,088.00 on volume of 7.68m shares. Declines led advances by 205 to 166. Natural resource stocks fol-Natural resource stocks followed oil prices lower, and gold shares were hit by rumours of bullion sales from the Middle East and Soviet Union. American Barrick and C\$% to C\$21% and Placer Dome shed C\$% to C\$17%.

In industrials, Laidlaw rose C\$4 to C\$20% Canadian C\$% to C\$20%, Canadian Pacific C\$% to C\$19 and Thomson Corp C\$% to C\$14%. In banks, Bank of Nova Sco-

tia was flat at C\$11% and Canadian Imperial shed C\$%

# Lower crude prices spark rebound in Japan

#### By Autonia Sharpe

SHARP downward correction in the crude oil Drice and relative stability in the Gulf lifted most stock markets last week. Japan staged the largest advance, of 10 per cent in local currency terms. Excluding Japan, the FT-Actuaries World index rose 2.6 per cent; its inclusion pushed it up 5.1 per cent.

Mr Casper Luard, senior manager at Nomura Interna-tional, said the combination of the lower oil price, a strong yen and the prospect of reduced interest rates, reflected in the strong bond market, recalled the years from 1985 and 1988 when the Japa-nese equity market boasted a "triple merit market" rating. "Given the persistence of these three factors, we can

expect the market to make progress," says Mr Luard. An improvement in market vol-umes, thanks to increased paricipation from domestic institutions and a renewed interest from foreigners, reflected a growing confidence in the mar-ket. In the first week of Octo-

EQUITIES registered their sixth straight rise yesterday, responding to lower crude prices and Friday's gains in New York, writes Martina Gan-

non in Tologo.

The Nikkel Average closed above 25,000 for the first time since September 13, in its longest-sustained rise this year.

Index-linked buying by investment trusts dominated and trading later than the contract of the contract

early trading; later there was support from small-lot purchas-

ing across the board. Institutional investors, who re-en-tered the market on Friday after keeping to the sidelines

for some time, were strong buyers, although dealers con-tinued to dominate trading.

The Nikkei, which rose to a high of 25,232.38 at one stage, closed at 25,070.86, up 589.37. The day's low was 24,489.51. Volume fell from Friday's

record high of 1.1bn shares to a

moderate 600m. The Topix index of all listed

stocks added 42.01 at 1,858.30.

The second section also rose but in London the ISE/Nikke

50 index lost 6.77 to 1,423.99.

In the afternoon NTT advanced by its daily limit of

Y100,000 to Y930,000 and trad-

ing in the issue was temporar-ily suspended. Last Friday, the

company unveiled a package of

measures which, it expected, would support its sagging

share price.

Morning risers included steels, shipbuilders and con-

structions. Sato Kogyo, a com-

pany expected to benefit from the government's increased public works spending as nearly 40 per cent of its sales is generated in the civil engineer-

ng sector, rose Y30 to Y1,750.

High-tech, export-oriented issues, weak features last week

on the yen's strengthening against the dollar, rallied briskly as the currency's rise abated. Pioneer Electronic forged ahead Y140 to Y4,430

Railways, heavy electricals and brokerage houses were in good form. Nomura Securities advanced Y120 to Y1,910 and Sumitomo Bank Y130 to Y1,880.

Among the day's few declin-

ing issues were some food and drug shares. Datichi Pharma-ceutical dipped Y10 to Y2,420 and Sankyo fell Y20 to Y2,380.

Elsewhere, Mitsubishi Estate shed Y10 to Y1,290. Mr Christopher Leighton of Schroder Securities said: "We

and Sony Y100 to Y6,600.

available, foreigners made their first net purchases of Japanese equities for eight weeks. In the short term the Nikkel could breach the psychologically important 26,000 level, says Mr Luard, which would

represent a recovery of about

one-third of its recent drop.
In Europe the leading performer was Spain, which rose 7.4 per cent in local currency terms. Ms Amanda Sisson, Spanish analyst at Barclays de Zoete Wedd, says that while the big drop in crude oil prices helped, heavy buying of bank shares in anticipation of good third-quarter results led the market higher. Banco Popular, which has not followed the other major hanks' lead in other major banks' lead in offering high-yielding current accounts, was particularly sought, rising 14.6 per cent on the work

the week.

While interest rates are not expected to fall before the second quarter of 1991, investors were encouraged by statements from the Bank of Spain that and the second statements from the Bank of Spain that the second statements from the Bank of Spain that the second statements from the Bank of Spain that the second statements from the Bank of Spain that the second statement and the second statement statem that credit controls would be lifted by the end of the year. Currently banks have a 10 per cent ceiling on loan growth.

Short term, the Spanish equity market could suffer some profit-taking, says Ma Sisson, but improved volume are a sign of renewed confidence. Daily turnover last week averaged about Pta9bn up from Pta5bn to Pta6bn in

Sweden, on the other hand, continued to fall on growing concern about the deteriorating economy. In local currency terms the market slipped 4.6 per cent last week. An increase in interest rates from 14 per cent to 17 per cent in an attempt to prevent a run on the currency fuelled fears of a devaluation of the Swedish krone. Swiss Bank Corporation points out that even the outlook for export-oriented stocks is clouding over. Enthusiasm for Astra, the pharmaceutical company which has been pursued on expectations that its anti-ulcer drug Losec will be a money-spinner, appears to be cooling off, the broker says. In the Pacific, New Zealand gained 7.1 per cent as the weakening domestic dollar cent to 17 per cent in an weakening domestic dollar prompted some overseas buy-ing. Malaysia rose 1.5 per cent before the general election.

	MARKE	TS IN	PER\$P	ECTIV	E	
	*	% change pletting †	% change bx US \$1			
•	1 Week	170	1 Year	Start of 1990	Start of 1980	Start of 1909
Austria	+4.66	+3.14	+2.23	+0,56	-7.34	+ 12.60
Beigium	+1.25	+0.81	-23.64	-23.13	-27.23	-11.58
Denmark	+2.89	+ 1.39	+0.70	-6.62	-11.92	+7.04
Finland	-1.05	-9.70	-32.39	-33.45	-38.17	-24,68
France	+3.10	+5.09	-16.58	-21.13	-25.44	-9.30
W. Germany	+ 1.60	+ 9.58	-2.64	-15.43	-21.68	4.70
ireland	+2.98	+6.89	-21.12	-23.69	-27.88	-12.36
	+ 1.28	+0.40	-20.16	-22.61	-28.23	-12.78
Italy Netherlands	+0.08	2.94	-15.45	-16.69	-22.64	-5.99
	-0.87	-11.12	+ 14.63	+6.67	-1.13	
Norway	+7.37	4-5.55	-25.86	-21.63	-25,42	
Spain	-4.60	-7.919	-16.76	-18.79	-26.04	
Sweden	+2.74	+260	-16.84	-16,76	-16.78	+1.13
Switzerland	-0.31	+3.70	6.58	-15.08	-16.06	+3.21
UKEUROPE	+1.05	+2.77	-10.07	-10-21	-19,95	-2.73
	T 1.00					
Australia	+3,82	3.19	-15.28	-15.41	-31.12	-16.30
Hong Kong	+2.58	+1.98	£7.62	+3.19	-14.83	+ 8.50
Japan	+10.00	+4.28	-53.44	-38.22	-41.83	20.44
Malaysia	+ 1.49	-6.36	-4.09	-17.08	-31.76	-17.08
New Zesland	+7.06	3.80	-32.47	26,07	-37.98	-24.62
Singapore	+4.29	-3.40	-13.56	-10.91	-26,88	-11.14
Canada	+1.31	-3.73	-18.96	-18.35	-35.35	-447.01
USA	+4.07	+0.19	-10.82	-12.09	-27.66	-12.09
Mexico	+4.59	+3.11	+88.82	+73.63	+31.45	+59.74
South Africa	-3.18	-6.68	+3.61	-15.00	-32.90	-18.46
WORLD BIDEX	+5.11	+2.13	-19.78	-23.61	-31.94	-17.29
† Based on October 19 Go., and County NetW	on 1995. (	Copyright, T	he Photocial	Tienne Lim	Hod, Galden	m, Sache i

#### Continent anticipates sombre New York start

LOWER oil prices did not sustain their appeal yesterday, as the more sombre Monday morning mood in New York was anticipated on the Continent, writes Our Markets Staff.

FRANKFUET started well in the pre-bourse, but it weak-ened thereafter, the DAX index closing 7.58 lower at 1,474.51 after the FAZ eased 0.30 to

634.85 at midses Volume fell from DM4.96m to DM4.5bn. Among the bearish news which dampened interest in the market was the joint economists' report which pre-dicted only 1.5 per cent growth for the unified Germany in 1991, and inflation of up to 4.0 per cent that year in the 11 states which previously com-

prised West Germany.

Mr Jens Wiecking, at Merck
Finck in Düsseldorf, said last
night that the economists had
underestimated the power of
the West German economy in
the past, but that he was
inclined to agree with them
about 1991.

There was technical pressure yesterday, he added, from the market's recent habit of rising on a Monday. Last Friday, jobture by buying in advance, but the increase was not sustained yesterday.

Chemicals were depressed by a forecast from Bank Julius Baer (Deutschland) that the baser (Desire Chemical companies will cut their dividends from DM13 to DM12 a share. Bayer, said Mr Graham Moynes of Williams de Broë, was hit worse than most because of worse than most because of scare stories about its third quarter earnings; he said that the company was standing by its 1990 forecast of earnings in Line with those of 1988, and that it would not have to decide on its 1990 dividend until April, 1991.

Carmakers were also lower, taking in a fall of DM9.10 to DM398 in Volkswagen, again on earnings worries. Construc-tions and consumer stocks were better and, in engineerings, MAN rose DM10 to DM366 on a rise in dividend from DM8 to DM11 a share. Continental managed a DM1 rise to DM252 before Sopaf, an Italian financial holding company, declared a 5 per cent holding in Conti-nental which, it said, it had accumulated in October.

MILAN rose on short-cover-ing but volume remained modest at around Friday's L130hn. Trading was becoming increas-ingly technical and short-term oriented, dealers said, with professionals taking their profits as soon as share prices made an advance. The Comit index rose \$24 to 571.18.

The Ferruzzi group was in the limelight, following a weekend announcement that the State Industry Winister had

State Industry Minister had approved terms under which Enument could be offered to its private partner, Montedison. However, the future of the chemical venture was still in limbo; it is still not known what price the state will ask for its 40 per cent stake in Enimont, or whether Montedison will accept the offer. Enimont rose Lie to LL,349 and Montedi-

son added L66 to L1,830. Flat rose L135 to L8,544. Mr Gianni Agnelli, the chairman, said at the weekend that a commercial and industrial accord with with the US Chrysler Corp was close. His as meaning that the accord would not involve a share swap. Olivetti rose L103 to L4,250 on rumours that it

would soon amounce an agree-ment with AT&T of the US on mobile phones.

AMSTERDAM started off firmer, but prices soon came back as turnover remained

low. The CBS Tendency index sound 0.6 to Sc.6. Fokker, which rose strongly last week on reports of a large buyer in the market, came back 40 cents to Fl 39.90 on

profit-taking. Options on the stock start trading today. PARIS drifted lower in tech-nical trading before the end of the monthly trading account today. One dealer was sur-prised that there was not more profit-taking considering that this account had shown a bet-ter performance compared with prior months. The CAC 40 index eased 4.75 to 1,639.95 in turnover estimated at a light

FFr1.5bn. Michelin was again the most

traded stock, with 296,900

MONDAY OCTOBER 22 1990

settleent change 22/10: Name change: TR Trustees Corp. to TR Smaller Companies Inv. Trust. (UK).

shares changing hands. The price steadied after last week's

price steadied after last week's plunge following the company warning that it would make a big loss this year, closing 90 centimes better at FFr60.10.

Oil stocks fell on the softer crude prices, with Total losing FFr5 to FFr655 and BP France easing FFr5.3 to FFrR103.60.

STOCKHOLM recovered partially from its heavy losses last week, the government's austerity package, due later this week. package, due later this week.

The Affärsvärlden index, which shed 4.9 per cent last week, jumped 2.9 per cent, or 26.8 to 9419. An SKril gain in Ericason B free shares to SKr222 boosted the index, fol-lowing news that its subsidiary

had won a share in an order for digital equipment from the German Bundespost. OSLO came off the day's highs, triggered by anthusiasm about Norway's decision to peg the crown to the European Currency Unit. The all-share index closed 8.22 higher at 523.86 in moderate volume of NKr257m, after touching a

BRUSSELS was led higher on lower oil prices. The cash market index gained 29.1 to

5,157.85.

On the forward market, Solvay rose BFr90 to BFr9,750 and Petrofina, the oil company, was steady at BFr10,325. Petrowas steady at BFr10,325. Petrofina will make its first presentation to investors and analysts in New York on Friday.

TURICH ended off its lows in
thin volume, the Credit Suisse
index easing 2.6 to 502.8. Union
Bank of Switzerland, the country's largest commercial bank,
teiked of "disappointing" third
quarter profits, but analysts
said this was in line with SBC
and Credit Suisse UBS bearers and Crédit Suisse. UBS bearers rose SFr10 to SFr2,980.

#### SOUTH AFRICA

JOHANNESBURG lacked clear direction. Gold shares slipped in line with bullion prices, but the rest of the market was sup-ported by a softer financial rand. The JSE all-gold index Nikkei rises above 25,000 but volume slips believe that (now that the average has passed the 24,000 level) it has gathered momentum and will continue rising to go over 26,000 within the next week

> and a hair.
>
> "Whether it will advance
> past that remains to be seen,
> as there has been a bit of technical resistance," he added.
>
> High-tech issues, boosted by
> the advance on Wall Street last week, performed well in Osaka. Among others making good headway were chemical.

machinery, construction and transport issues. Foods and shipbuildings lost ground.
The OSE average climbed 378.43 to 28,280.83 on reduced

half of Friday's 96.2m.

GAINS on Wall Street on Friday and Tokyo's good start to the week boosted most Pacific Rim markets. New Zealand was closed for Labour Day.
KUALA LUMPUR made its
largest single daily gain since
August 27 following the land-

tion government.
The composite index jumped 18.96, or 3.9 per cent, to 495.75

and turnover nearly doubled to 66.1m shares from 35.6m. IAMARTA's local index rose 10.88 to 407.86 but, as strict new settlement rules came into play, there was some question about the quality of the

improvement.
By last Friday Indonesian shares were down 36 per cent since August 1. The new settlement rules involve heavy penalties for anyone who fails to settle within five days, and one foreign broker said yesterday that this had kept many dealers off the market floor, believing that their foreign clients would need at least eight days, rather than five, for the settlerather than five, for the settle

SINGAPORE rallied in brief trading, boosted by general relief over the outcome of Malaysia's general election. Malayman shares listed in Singapore benefited the most. The Straits Times industrial index moved ahead 33.38 to 1,173.23.

MANILA ignored the threat of a strike on Wednesday to end higher, thanks to a firm oil sector on hopes of an oil strike in the southern Philippines. Drilling is expected to begin later this month with the arrival of the drill rig James Cunningham from Singapore on October 25. The composite index gained 7.2 to 547.65.

index gained 7.2 to 547.65.

RONG KONG closed at its highest level since September 17, though profit-taking nearly halved the sharp early gains inspired by a local prime rate cut. The Hang Seng index put on 23.61 to 3,015.56, easily recapturing the crucial 3,000 level. Turnover dipped to HK3962m from HK31.030n.

AUSTRAIA retreated on profit-taking after a brief early rise. A futures-related arbi-

rise. A futures-related arbitrage selling programme also put pressure on prices. Turn-over fell to A\$139m from A\$185m. The All-Ordinaries index ended 4.1 off at 1,364.6. Mr Rupert Murdoch's News Corp recovered 8 cents to A\$5.56 ahead of today's annual meeting, when shareholders

BOMBAY fell on heavy selling, triggered by political uncertainty as a row over a disputed religious site threatened to bring down Prime Minister VP Singh's minority government

The government depends for survival on the Hindu revivalsurvival on the Hindu revivalist Bharatiya Janata Party, which is spearheading a campaign on the issue. The BSE index dropped 56.78 to 1,223.49.

TAIWAN reversed early losses to end higher, boosted by demand for financials. Volume came to T\$42.50n, against T\$32.50n in Saturday's half-day seasion. The weighted index rose 131.17 to 3,216.19.

SECUIL also saw demand for

SECUL also saw demand he financials. Volume expanded to Won394.1bm from Won254.6bm. The composite index improved 24.93 to 733.97.

BANGKOK strengthened on lower off prices. The SET index advanced 31.17 to 683.33 in heavy turnover of 3bn baht. The market is closed today for

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#### FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

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Figures in parentheses show number of lines of stock	US Doller Index	Day's Change %	Pound Sterling Index	Yun Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Starting Index	Yea Index	DM Index	Local Currency Index	1990 (Sigh	1890 Low	Year ago (approx)
Austrelia (78)	126.63	-0.1	96.33	100.86	99.81	107,81	÷0.0	7.20	126.70	95.87	100.84	98.98	107.79	158.31	123,49	148.7
Austria (19)	207.08	+ 0.9	157.53	164,94	163.22	162.85	+1.3	1.68	205.16	155.23	163.28	160.27	160.81	285.63	178.57	163.1
Belgium (61)	136.45	-0.2	103.80	108.67	107.54	104.82	+0.4	5.53	136.76	103.48	108.83	106.83	104.38	160.02	126.67	142.7
Canada (120)	123.56	+0.2	93,99	98,40	97,38	104.95	+0.7	3.79	123.25	93.25	98.08	96.27	104.24	153.61	121.24	149.3
Denmark (33)	259.75	+0.2	197,59	206.89	204.73	203.67	+0.6	1.46	259.27	196.17	206.34	202.53	202.41	277.62	234.05	206.
Finland (26)	100.25	+0.1	76.25	79.85	79.01	75.22	-0.1	3.64	100.16	75.78	79.72	78.24	75.26	152.29	100.16	124.
France (123)	139.74	-12	106.30	111.29	110.13	111.25	-0.4	3.70	141.38	106.97	11251	110.43	111.67	168,85	124.98	135.
Sermany (91)	116.30	<b>- 1.3</b>	88.47	92.64	91.66	91.66	-0.4	245	117.80	89.12	93.76	92.01	92.01	144.63	101.38	98.0
Hong Kong (48)	122.65	+ 1.2	93.30	97.69	96.67	122.56	+1.2	5.38	121.23	91.73	96.48	94.71	121.11	147.49	112.24	115.
reland (17)	162.61	+22	123.69	129.51	128.16	129.41	+3.0	4.04	159.10	120.37	126.51	124.28	125.66	198.57	139.04	161.
taly (91)	86.69	+ 1.0	65.95	69.04	68.33	73.50	+ 1.9	3.35	85.85	64.95	68.32	67.06	72.15	109.26	80.87	88.9
lapan (454)	142.16	+ 2.1	108.14	113.22	112.06	113,22	+ 2.1	0.75	139.29	105.39	110.85	108.82	110.85	197.26	106.58	186.
Malaysia (35)	197.32	+3.9	150.10	157.15	155.52	204.92	+3.8	2.99	189.93	143.70	151.14	148.36	197.39	250.89	182.96	203.
Mexico (13)	530.13	+20	403.26	422.23	417,83	1692.49	+ 1.8	0.40	519.80	383.36	413.75	406,11	1662.07	561.41	324,53	323.
letherland (41)	134.72	-0.4	102.48	107.30	106.18	105.08	+0.5	5.45	135.27	102.35	107.65	105.67	104.55	149.03	127.56	129.
lew Zealand (16)	54.47	+0.2	41.44	43.39	42.94	47.64	+0.0	7.07	54.34	41.11	43.25	42.45	47.64	75.36	50.73	79.
lorway (27)	240.63	+0.2	183.04	191.65	189.66	192.37	+0.8	1.61	240.13	181.68	191.11	187.58	190.83	276.79	202.34	177.
Singapore (25)	163.00	+3.5	123.99	129.83	126.47	128.22	+3.2	3.33	157.46	119.13	125.31	123.00	124.26	209.24	147.24	160.
outh Africa (60)	158.68	- 1.0	120.69	126.37	125.05	129.65	+0.3	4.32	160.25	121.25	127.53	125.18	129.26	251.39	151.50	144,
Spain (42)	148.73	+ 0.6	113.14	118.46	117.22	107.10	+ 1.1	5.18	147.80	111.83	117.63	115.45	105.92	182.25	128.54	160.
weden (27)	177.97	+3.1	135.38	141.75	140.28	147.74	+3.3	275	172.61	130.60	137.37	134.83	142.97	234.93	158.07	179.
witzerland (67)	94.10	- 1.1	71.58	74.95	74.17	74.70	-0.2	2.87	95.13	71.98	75.71	74.32	74.87	109.77	85.00	88.
Inited Kingdom (300)	163.80	+0.0	124.60	130,45	129.09	124.60	+0.5	5.58	163.80	123.94	130.35	127.94	123.94	176.18	139.87	142
ISA (533)	126.78	+ 0.8	96.44	100.98	99.93	126.78	+0.8	3.86	125.76	95.15	100.09	98.24	125.76	148.95	119.06	140.
urope (965)	138.09	~0.3	105.04	109.98	108.84	107.08	+0.4	4.36	138.50	104.79	110.22	108.19	106.64	157.65	124.91	125.
lordic (113)	187.69	+1.3	142.77	149.49	147.93	145.39	+ 1.7	2.08	185.23	140.15	147.41	144.69	142.99	223.29	172.38	168.
acific Basin (656)	140.58	+2.0	106,94	111.97	110.80	113.07	+2.0	1.11	137.86	104.31	109.72	107.69	110.80	192.75	107.82	182.
uro - Pacific (1621)	139.94	+1.0	106.45	111,45	110.29	111.38	+1.4	242	138.49	104.78	110.21	108.18	109.85	174.18	116.03	160.
orth America (653)	126.50	+0.8	96.23	100.76	99.72	125.35	+0.8	3.86	125.52	94.97	99.90	98,06	124,35	148.43	119.26	140.
urope Ex. UK (665)	121.91	-0.5	92,74	97.12	96.11	96.57	+0.3	3.48	122.53	92.70	97.53	95.73	96.30	145.62	109.94	114.
acific Ex. Japan (202)	121.28	+0.8	92.25	96.61	95.59	107.38	+0.8	6.11	120.32	91.04	95.77	94,00	106.52	146.72	117.08	132
forld Ex. US (1814)	139.80	+ 1.0	106,34	111.35	110.19	111.76	+1.3	2.48	138.41	104.72	110.16	108.12	110.28	173.77	117.12	159.
Vorid Ex. UK (2047)	131,33	+1.1	99.90	104.61	103.52	115,73	+1,2	260	129.95	98.33	103.43	101.52	114.30	162.00	115.37	152
Vorid Ex. So. At. (2287)	134.06	+ 1.0	101.98	106,79	105.67	116,49	÷ 1.2	2.92	132.79	100.47	105.69	103.74	115.14	161.84	118.04	151.0
Vorld Ex. Japan (1893)	131.42	+0.3	99.97	104.68	103.59	118.16	+ 0.6	4.15	130.99	99.11	104.26	102.34	117.41	151.59	124.31	134.
ne World Index (2347)	134.21	+0.9	102.09	106.90	105.79	116.59	+1.2	2.93	132.96	100.60	105.82	103.87	115.24	162.05	118.33	151.

Tuesday, October 23, 1990



Signs of intolerance and unrest reflect a profound identity and adjustment crisis in Canada. The

prospects of the country that has long-prided itself on unrivalled stability have now become disturbingly uncertain, as Bernard Simon reports here.

## An identity crisis unfolds

PICK A word that best desk-tops and inviting TV describes Canada. Your choice cameramen onto the floor of will probably include one of the upper chamber of parliathe following: dull, tranguil, boring, contented, tolerant, and of course, cold.

The only one of those words that aptly describes the world's second-biggest country and seventh biggest economy in the autumn of 1990 is cold.

Far from being contented, Canadians are in a sour, dis-gruntled mood. Their normally tranquil political scene has become unusually volatile.

Most unsettling, the prospects of a country that has

The state of the s

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long prided itself on unrivalled stability, have become disturbingly uncertain.

Canadians themselves have rubbed their eyes in disbelief rubbed their eyes in disbelief at some of the images coming out of their country lately. Could it be in peaceful, isw-abiding Canada, that hundreds of soldiers and armoured vehicles would for more than two months face masked, heavily-armed Mohawk Indians across barbed wire and barriculard.

The image of Canadians as a polite, even-tempered people hardly matches the sight of elderly members of the Senste in Ottawa trying to stop an unpopular tax measure by blowing whistles, banging

the upper chamber of parlia-

provide municipal services in French, or Quebeckers protest-ing against growing numbers of non-French speaking immi-

Unhappily for Causta, these

future direction of the country.

As a senior caldness monaster in

Ottawa puts it, Canadians need.

to examine "whether we want

a country in the first place, and whether there are values that we share."

tive was, it not only failed to bring Quebec into the constitu-tion, but also brought to the surface stresses and strains in the ever-fragile Canadian fab-

By the time the accord sank in a swamp of ill will last Jone, it had ignited a new wave of nationalism in Quebec, stirred up considerable resentment against Quebec in English Canada, helped nurture a new sense of allenation in the west, and raised the stakes in native Canadians' demands for

are not isolated incidents. Rather, they are the symptoms of a profound identity and adjustment crisis in which Canadians are having to make some tough decisions about their own fainre and their rela-tions with the outside world. The issues, both political and economic, could hardly be more fundamental to the

The Economic Council of Canada, a government-funded think-tank, said in its latest two parties. annual report published last month, that "we must in effect manage two complex transitions at the same time. Inter-

nally, we must rethink our economic priorities and our insti-tutions; externally, we must continue to adapt to the new

global realities."

The political landscape has gained a rougher edge from the harsh, three-year long debate over the Meech Lake accord, the package of constitutional reforms conceived by prime minister Brian Mulroney to make Quebec a full member of the Canadian family by having

it sign the 1982 constitution. Bold as Mr Mulroney's initia-

Canadians' demands for greater autonomy and settlement of their land claims.

ment of their land claims.

Meech Lake's legacy is an unaccustomed volatility and polarisation in Canadian poli-A distinctly un-Canadian intolerance has abounded in the past year, whether in the form of Anglophone city councils around Ontario refusing to ics. Two new regional group-ings, the ultra-nationalistic Bloc Quebecols in Quebec and the Reform Party in western Canada, have attracted huge public support at the expense of the two largest mainstream parties, the ruling Progressive Conservatives and the Liber-

Both the BQ and the Reform Party have won handsome majorities in by-elections. Voters' discontent was also evident in the stunning victory of the left-wing New Democratic Party in provincial elec-tions in Ontario in early Sep-

It is widely assumed that It is widely assumed that almost 40 per cent of voters in Canada's richest region plumped for the NDP, not because of any special fundness for the greater degree of government intervention which the party has promised, but as a protest against being taken for granted by the other two narties.

to the economic sphere. Besides the discomfort of entering what is expected to be a longish (if relatively shallow)

A werrior-like indian stands friumphant on an overturned police vehicle, blocking a ay in Quebec after police action falled to remove Mo

cyclical recession; the economy faces some challenging and psinful structural adjustments.

The US-Canada free trade agreement, which came into force at the beginning of 1989, is forcing Canadian business and labour into more direct competition with American companies which, in many cases, are more efficient and

more productive.

For instance, the high-cost food processing industry, hitherto hased on a supply-management system which guarantees high prices to Canadian farmers, is increasingly having to compete against cheaper US

Meanwhile, the ability of governments to put a crutch under weak industries or

regions, and indeed to main-tain the standards of public The key reason is the upward march of interest rates since 1987. As a result of the former Liberal government's profli-gacy, interest payments now make up more than 30 per cent

of federal government spending, by far the largest single

The fiscal spotlight is gradually shifting to lower levels of government. Provinces and municipalities make up almost

the national fabric, most Cana-

service to which Canadians have been accustomed, is under severe strain.

The Economic Council of Canada notes that "Canadians are going to have to scale down their expectations regarding the capacity of gov-ernments to solve their prob-

National governments are losing some of their traditional levers of power, and the federal government in particular is experiencing serious financial

Although the Mulroney gov-enment has kept a lid on fed-eral spending, the budget defi-cit has remained stubbornly high at about C\$30bn a year.

A Commence of the second

after the collapse of Meech Lake showed that four in every five Canadians do not want

their country to be part of their giant neighbour to the While Quebec nationalists would like a greater measure of autonomy for their province, most would be happy for Ottawa to continue running their

post office, seeing to their defence needs, and even printing their currency.

Indeed, the Mulroney government is hoping that it can win re-election by building on the theme of a study united.

win re-election by building on the theme of a single, united and confident Canada.

Issues that transcend regional boundaries, such as the environment and day-care, will probably figure promi-nently in the run-up to the next election, expected to be called in 1821.

The government will soon

The government will soon launch an ambitious effort at "consensus-building dialogue", which will include hundreds of which will include hundreds of meetings in communities across the country to give Canadians a more focused forum than radio hot-line shows to vent their hopes and frustrations.

A plethora of more formal groups is also being set up on both a national and regional level to chart the future course

of the country.

The federal government is planning a commission on con-stitutional reform in an effort

to avoid a repetition of the messy Meech Lake process.

In Quebec, a group of business, labour and community leaders is discussing the francophone province's options for the future in anythm with the future, in tandem with a study by the ruling Liberal party. The province's premier has instructed these groups to consider all alternatives, bar two: joining the US and retaining the status quo. Across the country, there

two-thirds of public outlays and, in contrast to the federal government, have pumped up their spending enormously in already appears to be a consensus about one thing: if Canada is to survive with the attrirecent years.
For all the forces tearing at butes which have made it the envy of so many other nations, some significant changes are inevitable in the way this vast, diens are by no means ready to esce in the fragmentation

never been served before.

Canadian Airlines International

the form of Quebec taking its own seat at the United Nations, or of some of the eastern or western provinces join-ing the US.

A poll taken immediately

IN THIS SURVEY

Canada's Prime Minis Brian Muironey: although his government has kept the lid on federal spending, the bud-get deficit has remained stubbornly high at about C\$30bn a year.

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e Polifical predic Camelo's Bob Ree presents a dual

If Passacké services: proper ing for the signes. If The Goods and Services Tes: a highly control with

# Reaction to the Free Trade Agreement: signs of increas-ing public hostility. **E** Western Canada: strong

Cuebec: de S Advice for winter visit IS Denote of retend PT

PAGE 6

□ Editorial production
by Michael Wiltehire.



and care. So much so, you could almost suspect

Our motive is we want your business.

And we'll pamper you, and cosset you, and fuss

We want you to fly with us again and again.

an ulterior motive. And you'd be right

more. If you haven't, then you've pleasures to

come. And it would be our pleasure to welcome

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you aboard.

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You'll find the food nutritious and deli-

cious, the wines impeccable, the glassware

elegant, the crockery bone china, and the

# Likely to become a much livelier spectator-sport

THE FIRST tangible evidence of a new fluidity in Canadian politics came not from Quebec. as one might have expected but from the western province

Just four months after the Conservatives made a clean sweep of Alberta in the Novem-ber 1988 election, a candidate from the flercely regional Reform Party won a stunning 4,200-vote majority in a by-election in a rural constituency.

The unsettled mood which

produced the upset in Alberta has subsequently brought a has subsequently brought a succession of upsets and surprises across the country, to the point where few Canadiana would venture a bet on the outcome of the next fatheral elaction, which will probably be called some time in 1922, or the handful of provincial polls likely to be held before then. If there is a constant in the shifting political landscape, it is that the two biggest parties.

is that the two biggest parties, the Conservatives and Liberals, have been put on the defensive by a variety of groups representing more clearly defined ideological and

regional interests.
In federal politics, the debate
over Quebec's future role in Canada has spawned the nationalistic Bloc Québécois, a group of nine MPs who defected from the Tories and the Liberals. The party proved its grassroots support in August by winning a huge majority in a by-election in an east-end Montreal constituency once regarded as a Liberal stronghold.

The Reform Party has continued to flourish, mainly in British Columbia and Alberta, on a platform which empha-sises the interests of western Canada, including greater rep-resentation in the Senate and an end to forced hilingualism. On the provincial front, the big winner recently has been the New Democratic Party, the left-leaning group which sprang in the early 1960s from he co-operative movement on the prairies, and now also leans heavily on trade unions and university campuses for support. It scored one of the great upsets of Canadian political history in September with its win in provincial elections in Ontario, where the incum-bent Liberals were so confident of victory that they called an election with two years of their mandate still to go. The NDP also put in a strong showing in

Underlining the electorate's heightened volatility is the unusually high support for a variety of single-issue, fringe parties. These groups managed to gain 7 per cent of the votes cast in Ontario, and have shown similar standings in

PROVINCIAL GOVERNMENTS List of provinces, showing governing party and year of the last election:

national opinion polls.
Canadians are now debating the significance of this frag-mentation of political alle-giances. Is it merely a tempoparties is it increased a temporary protest against governing parties of the kind to be expected when voters are grumpy about everything from the economy to the Prime Minister's style? Or is it the start of political system where regional or special-interest parties will in future hold the balance of

power between Liberals and Conservatives? One compelling argument in favour of the latter interpretation is that the Tories and the Liberals are worried in about equal measure. Recent opinion polls give the Mulromey Government an approval rating of only 15-20 per cent of decided voters, the lowest for a ruling party in almost half a continue perty in almost half a century.

concerned about the strength of the Reform Party in the west, where hatred of the Tru-dean Liberals in 1984 and solid dean Liberals in 1984 and solid backing for the free trade deal four years later have guaran-ised solid support for Mr Mul-roney in the past two elections. The Liberals' biggest prob-lem is in Quebec, whose relatively homogeneous population and large bloc of MPs make it a key to victory in federal elec-tions. With the defections to

E TOTAL \_

cancus in the House of Com-mons now has only a handful of French-speaking members from Quebec. One sign of the Liberals' shaky standing in Quebec is that the new leader, Mr Jean Chrétien, sithough himself a Quebecker, has decided to run for parliament in a safe seat in New Brun-

Provincial Liberals' defeat in Ontario and their poor showing in Manitoba are further pointers to an uphill battle for the federal party sheed of the next election. The fortunes of next election. The fortunes of the two mainline parties are now heavily dependent on the strength of the NDP, the Bloc Québécois and the Reform Party. A surge in support for the New Democrats on the fed-eral level would take more votes from the Liberals than the Tories.

The key to the NDP's credihility appears to be the perfor-mance of the new Government in Ontario headed by Mr Bob Bas. With an inspectual leader in Ottawa in the form of Ms in Ottawa in the form of Ms Audrey McLaughlin, New Democrats are hoping Mr Rae will show the country that the party should be taken more seriously at the federal level too. The Tories are crossing fingers that the Bloc Québécois will in future concentrate on



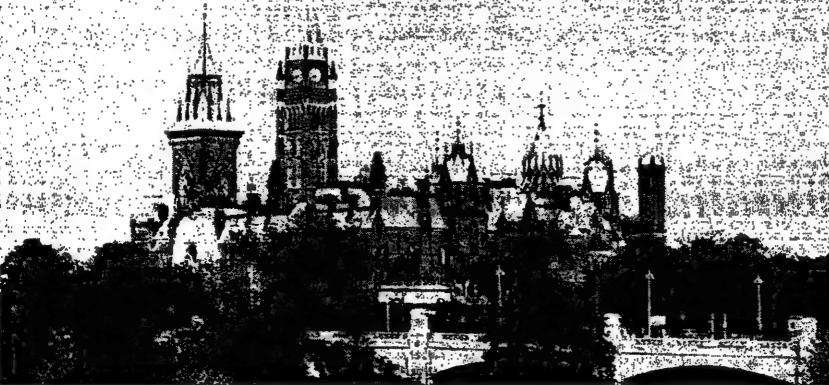
can wield more leverage on Ottawa by controlling the pro-vincial government than through what will always be a minority of MPs in the House of Commons. The political rumour mill suggests that the group's leader, former Tory cabinet minister Lucien Bouchard, has set his sights on becoming the next premier of Quebec. As for the threat from the Reform Party, the Multiple of Multipl the Reform Party, the Mnhoney Government is now searching for an issue that can bring the west back to its side,

A robust economic recovery in 1981 would do the trick best of all. But in the absence of that, the Tories will be beating the drum of a strong, confident and united Canada in the run-up to the next election. Whether or not they succe in getting that messes across Canadian politics over the next

few years should be a much

livelier spectator sport than it has been in the past.

KEY FACTS AND INDICATORS 26.25 million, (1989 estimate Gueen Elizabeth I epulation . ead of Sta Canadian dollar (C\$) ..., 1968 US\$1 = C\$1.23 **SCONOMIC INDICATORS** 550.3 Real GDP growth (%) 20965 59.5 22.7 0.6 19.0 27.6 56.0 24.6 17.7 -16.6 120.9 115.9 5.0



View of Parliament Hill and parliament buildings in Ollewa, Ontario.

Political profile

# Ontario's Bob Rae: presenting a dual image

wealthiest province "The People's Republic of Ontario." Others observers, however,

were optimistic that the ng New Der seme face-to-face with the reality of running a

regional economy.

The divergence of views on how the NDP will use its stunning victory at the polis reflects, in part, the contrasting images project by the new provincial pressier, Mr Bob Res. In his suR, stylish braces and studious-looking

nniar or corporate director He is the son of a diploma

was educated at a private school in Switzerland and went to Oxford as a Rhode Schotar. He is no societies tob-thomper. Mr Res told a group of Toronto business people that "you don't have to contribute

to my political party to have breaklast with me".

As if recognising the diversity of his constituency, in the first speech as premier by addressing his premier by addressing his audience as "brothers and But there is and

to fifr Rae and to his party

a side which was summ

After its first few weeks in office, Canada's only New Democratic Party government has been more conciliatory to business than its harshest critics feared, says Bernard Simon

money forked out to pricey Government consultants would be better sport on load benks for Toronto's poor and

NDP fought the election is well to the left of any previ

litings, a minimum corporate inx, a jump to the statutory

anti-poliution rules.

Mr Res has already shown signs of backing away from some of the promises. The NDP said during the casepalon that it pleased to ignore the US-Canada tree

harf by rising comparis from US imports. Furthermore, the sta the provincial economy isaves the new Governm

ambitious spending programmes or higher taxes. The small budget surplus forecast by the outgoing Liberals for the 1990/91 flecal

With the economy new in

reconsion, the new government supects a visep fall in tex revenues and a

jump in social payments.
Ontario enjoyed one of the highest growth rates in Canada in the 1980s, but is

now suffering a more severe slowdown than most other

per year)..... industrial wage rates (%

Sisturbed, however, by we of Mr Rae's cabinet inister is a former orga for the Steelworkers of

70.5 6.0

4.0

4.6

73.7

65.4

7.0

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5.5

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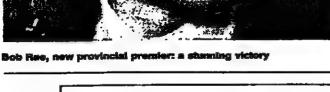
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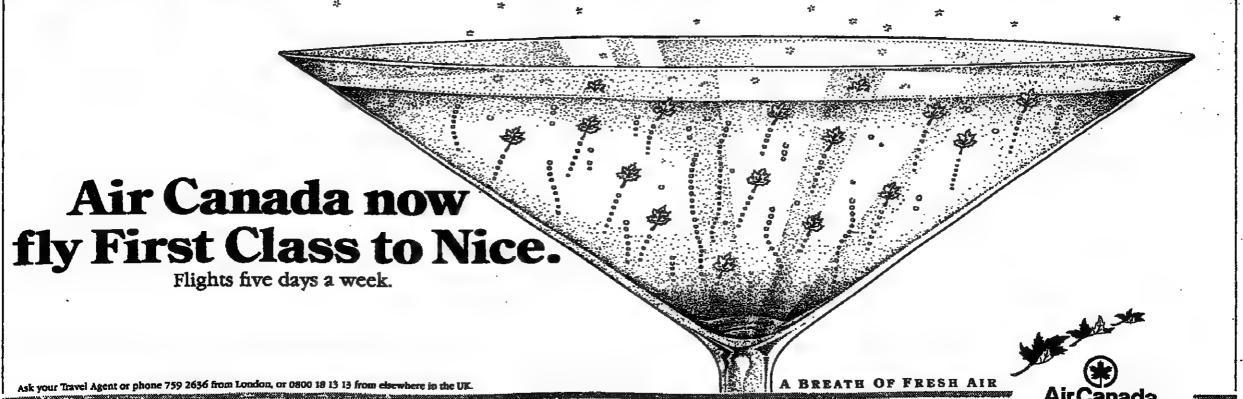
serica trade union, has gone to a former negotiator for the civil

vili stay that way.

servants' union.
On balance, after its first few weeks in office, Canada's only NDP Government has been more conciliatory to business than its harshest critics feared, but leas friend than the optimists hoped.

The best bet is that things





THREE AND A HALF years of ..... rising interest rates and an erratic tightening of fiscal pol-icy have at last taken the heat OUL of the Canadian economy. "The question is not whether

Canada will go through a recession, but rather how deep and how long the recession will be," National Bank of Canada says in its latest economic

There is widespread agree. ment that 1991 will be a tough year. Toronto-Dominion Bank forecasts real GDP growth of 1 per cent next year, only fractionally higher than its 1990 estimate and well below the 3 per cent posted in 1999.

Mr. Course Vario director of Mr George Vasic, director of

economic research at DRI/ McGraw-Hill, puts forward somewhat higher numbers, with overall growth at 1.5 and 1.9 per cent in 1990 and 1991 respectively. But he agrees that the current business cycle will be saucer-shaped, with a

very shallow recovery.

The brunt of the downturn is likely to be falt by the housing market and other consumer-

Housing starts had already fallen to an annualised 137,000 unita in September, 1990, from

MR MICHAEL HOWARD, the investment adviser at Canada's embassy in Tokyo from

aside, is threatening foreign

Canada's ability to raise funds in world capital markets

25

Most of the ten provinces are projecting bigger deficits in 1991, says Bernard Simon

# **Economic recession looks inevitable**

From a regional point of view, southern Ontario - which enjoyed the strongest growth in the mid-1980s - is now bracing itself for the steepest down-

The area around Toronto depends heavily on the steel and automotive industries, as well as on construction. The city's commercial and residential property markets are already in a nosedive.

The Bank of Canada has responded to the rapid cooling of demand by allowing interest rates to fall. Commercial banks' prime lending rate has dipped from 14.75 per cent to 13.75 per cent since early

The all-important spread between US and Canadian short-term rates has narrowed from a peak of almost six percentage points early this year to just below five.

Real GDP Annualised rate of change 5%

1988 89 90 91 1992 Source: ORITAGO SENSE TOTOMS However, the authorities remain cautious. Having been one of the first central banks to see the dangers of excessive demand in the late 1980s, the Bank of Canada continues to keep a watchful eye on infla-

On the plus side, Mr John Crow, the bank's governor, said last month that "as the demand pressures on inflation have become less intense, there has been scope for easier monetary conditions.

After remaining stubbornly above 5 per cent for much of 1989, inflation - measured by the consumer price index -dipped to 4.1 per cent in the year to August 1990.

But, Mr Crow added, "in order to maintain low interest

rates, monetary policy must encourage Canadians to base their action on declining rather than on rising inflation."

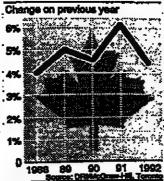
Besides the unpredictable oil price, the biggest concern on the inflation front is the 7 per cent goods and services tax (GST), a broadly-based val-ue-added tax due to be introduced on January 1, 1991, as a replacement for a 13.5 per cent manufacturers sales tax (MST).

The Government estimates that the GST alone will raise the consumer price index by 1.25 per cent

The slowing economy will encourage many businesses either to absorb some of the new tax, or at least to pess on any savings from the abolition of the MST.

Private-sector economists are generally less optimistic than the Government. Toronto-Dominion expects the CPI to jump to an annualised rate of 6-7 per cent or more in early 1991, with a rate for the year of 6.5 per cent. But the singgish economy and cooling wage demands could bring inflation down substantially again in

Coupled with the outlook for growth and inflation, Ottawa's ability to hold down interest rates depends heavily on fiscal discipline. The Organisation for Economic Co-operation and Consumer Price Index



Development, in its latest annual report on Canada, notes that "the risk of fiscal policy entering a victous circle of expanding Government defi-cits, higher debt service and a debt explosion has substan-tially lessened in recent years."

The OECD projects a drop in the general Government deficit from 3.5 per cent of GDP in 1989 to about 2.7 per cent in

Meeting that target will not be easy, however. Mr Michael Wilson, Finance Minister, dis-closed in September that Ott-awa's budget deficit for the year to March 31, 1991, will be C\$1-1.5bm higher than the tar-geted C\$28.5bm. Higher tax revenues and vir-

tually stagnant programme spending have been offset by the impact of high interest rates on debt-service payments, which absorb close to 35 per cent of federal revenues.

While the federal Government can take credit for keeping the lid on its programmes, the same cannot be said for the provinces. Some, notably Ontario, have been spending, in the words of a senior policy-maker, "like drunken sailors."

Most of the ten provinces are projecting bigger deficits in 1991. New Brunswick's will probably double. Ontario, which originally

hoped for a small surplus this year, will now have a deficit of at least C\$700m, probably shooting well above C\$1bn in

1991/92. Pressure to loosen the fiscal reins will be intense on both the federal and provincial levels over the next two to three years. The recession will create extra demands on the public purse. Fiscal discipline is unlikely to be a high priority for the new NDP Government

in Outario. The federal Government, as it tries to heal the national psyche, will find its arm twisted hard by regional inter-est groups wanting support for their pet projects. And that pressure will grow as the next federal election draws closer.

The Government's own eco-nomic think-tank, the Economic Council of Canada, observed in its latest annual report that, for all the desirability of holding the line on the budget, "further progress on federal deficit reduction will be difficult to achieve."

# Foreign investors take their time

1986-1986, recalls his attempts there to convince Japan that Canada is not snowbound 12 months of the year. Given the seven-fold increase

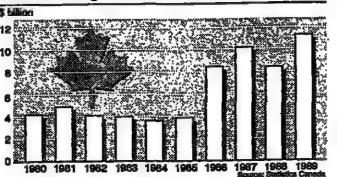
have cut back especially hard on Canadian securities. With international confidence eroding and a burden-some annual deficit of C\$30bn, Canada is apt to face paying higher costs for its borrowing. Interest rates on Canadian government 20-year bonds are already running to 2.25 per-centage points above those of

Given the seven-fold increase in the net flow of foreign direct investment by Japan in Canada between 1985 and 1989, he appears to have succeeded in demolishing this chilling myth. However, Canada now faces a new, less familiar image problem. Its political arena, once considered unutterably bortons is now in uncharacteristic US Treasury bonds.
To add to the woes, domestic ing is now in uncharacteristic business, through the Canadian Manufacturers' Association, has told Mr Mulroney that it is also starting to lose The abortive fate of the Meech Lake agreement on con-stitutional changes, an Indian uprising in Quebec, a popular tax revolt, an overvained Cana-dian dollar; high interest rates, confidence in the country's economy. Given the Canada-US Free Trade Agreement, an increasing number of Canadian manufacturers are considering an economic downturn, and the deep political difficulties of Prime Minister Mr Brian Mulronsy have all added up to a climate in Canada which, snow

moving operations to the US. Until this year, however, Canada's attractions have far outweighed its problems for foreign investors. Gross flows of foreign direct investment doubled during the 1980s, and since 1985 have increased dramatically from less than C34bn annually to C\$11.4bn in 1989.

has shown signs of faltering. Canada reported at the end of September that foreign investment in Canadian stocks and The country can boast some important achievements: after bonds had fallen 22 per cent to C\$6.5hn during the first seven tax profits have consistently outpaced those in the United States. Federal corporate investors, retrenching at home,

**Gross foreign direct investment** 



income taxes have been reduced from 35 per cent to 28 per cent. There are also longer term features:

• Under the Consda-US Pres Trade Agreement, investors have access to a bi-national merket of 170m consumers.

The Canadian workforce is highly skilled. Public sector

spending on education is higher than other G-7 countries as share of GDP. Average wage and benefit costs in manufacturing tand to be below those of the US and  trikes, have improved.
 The country has abundant natural resources and is oil self-sufficient. Energy costs are lower than in the US.

• It received the highest rating for transportation, commu-nications and power supply infrastructure among the G-7 countries in the 1990 survey of international business leaders by the World Economic Forum. While the government has advertised Canada as "open for business" regarding foreign investment, the issue arouses persistent domestic sensitivi-

ties. US investment stirs the greatest worry among Canadians who feel that their sover-eignty is constantly in peril of being overrun by the colossus to the south.

The sensitivity is not unwarranted. A quarter of the country's assets are owned by for-eigners and the lion's share is in the hands of Americans. Thus, Investment Canada, the government agency charged with promoting as well as approving foreign investment, appears bent on attracting anybody but their southern neighbours. The agency's promotional folder lists glowing testimetries between the statement investing in testimonials about investing in Canada, but none are from the

Investment Canada's biggest card for selling Canada to-day is that investors can have access to the US market while taking advantage of Canada's high quality of life. Its cities, for example, are clean and suffer from far less crime than in the US.

Given Canada's success at finding niches in international markets, it aims to attract investors in select high tech-nology fields, including lasers, biotechnology, advanced mate-

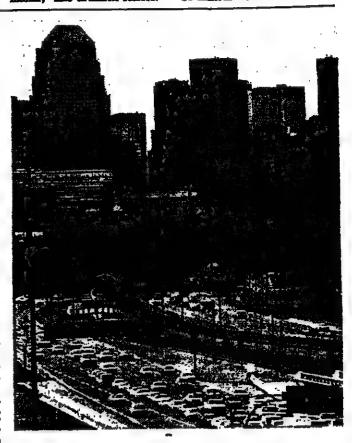
waste management. Some of Canada's most successful com-panies are those that have discovered a new process or prod-uct and sought strategic alliances with foreign companies to obtain access to markets abroad.

But major investment projects, such as the recently approved C\$5.2bn Hibernia offapproved Calzan Hiberita de-shore oil project whose consor-tium of four oil companies — Mobil, Chevron, Gulf, which all have significant US ties, and Petro-Canada, the soon to be privatised national oil com-pany – all have significant US ties, are likely to dwarf smaller niche-type investments.

in the proposal stages, too, are several large natural gas pipelines to the US that could mean billions of dollars in

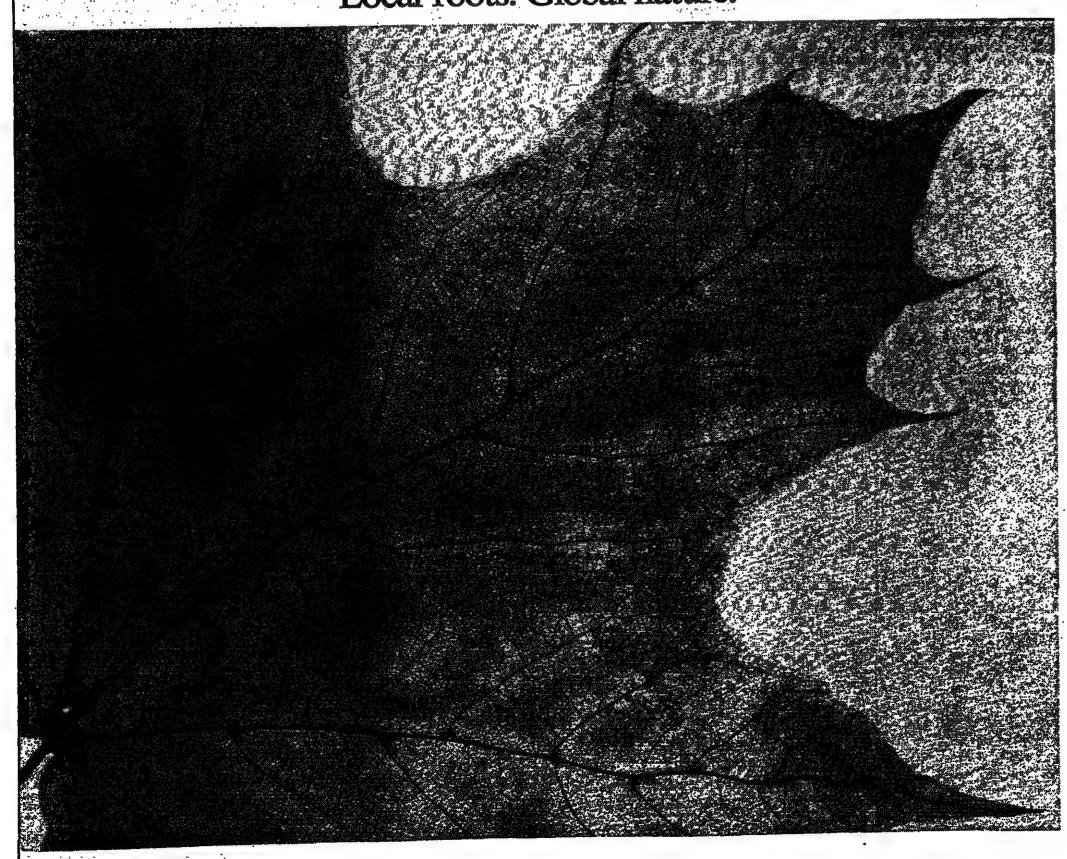
Even in these troubled times for Canada, mega-projects such as these will so forward. For those looking beyond

this awkward moment, given the Canadian reputation for resolving disputes in a highly civilised manner, the country's attractions may well continue



Canadian commercial property markets are fooking dult. Above: the skyline of Calgary, capital of Alberta.

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#### Reaction to the Free Trade Agreement

# Signs of increasing public hostility

economically painful start, Canadians saw liberalised trade with the US as something that would help prevent the country from falling into another recession

Now, a year and three quarters into its Free Trade Agree ment (FTA) with the United States, Canada is wading into a new recession and public disillusionment with the accord is

growing.
"Public hostility toward free
"Public hostility toward free trade shows every sign of increasing," says Mr Angus Reid, a prominent national pollster based in Winnipeg. While the FTA is unlikely to be thrown out, the danger is that public disfavour will toss it onto Canada's increasingly troubled and unpredictable political waters.

"There is a public appetite to get more out of the deal," says Mr Reid, who believes it is politically possible that Canada politically possible that Canada could find itself with a new Government in 1993 that would call for changes in the FTA.

The agreement between Canada and the US, the world's two largest trading partners, began on January 1, 1989, and is to be implemented over ten

It gradually eliminates tar in one, five and ten year phases on the annual \$200bn worth of Canada-US trade. More than three quarters of Canada's exports go south, and the US sends about one fifth of

ts exports north. The FTA facilitates investment and business travel a provision attractive Americans who account for iome 70 per cent of Canada's ni-national trade dispute mech-mism was also created to help emove political motives from

The problem for pro-free raders and the current Canalian Government of Mr. Brian Mulroney, which negotiated the agreement, is that it is too early to be able to assess the FTA's effects. These are being vershadowed by other forces, such as a strong Canadian dol-ar and high interest rates.

Consequently, without a list of identifiable FTA benefits, he Covernment is left with litis considered the centerpiece of ts policy achievements.

Labour leaders and Canaiian nationalists, the FTA's orime critics, charge that the igreement is responsible for ob losses as plants move to :he US to serve the two mar-



of the Progressive Conservative Party, is at rock bottom. His association with the FTA in the public mind does not help the pro-free traders' argu

kets, now with 270m consum-

If Canada's economic reces sion is prolonged, the FTA could enter some dark days. The search is already on for a convenient scapegoat for why things have gone wrong.

The popularity of Mr. Mulro-ney of the Progressive Conservative party is at rock bottom. His association with the FTA in the public mind does not belp the pro-free traders' argu-

The political fortunes of the deal may also be influenced by talks about a US-Mexico free trade agreement, to which Can-

The business benefits of the agreement are not yet perceived by the public, says BARBARA DURR

ada has said it wants to be a party. The announcement by Mr. John Crosbie, the interna-tional trade minister, that Canada will participate in threeway exploratory negotiations on free trade immediately drew criticism from the two main opposition parties.

The prospect of a New Democratic party government, never contemplated before the elec-tion of the NDP's Mr. Bob Rae to the premiership in Ontario last month, is regarded as the most likely scenario for changing the FTA. However, Mr. Rae, who campaigned against the FTA before his election victory, has now stopped saying he will ignore it.

This appears to support the analysis of Mr. Richard Lipsey, a nationally known expert on the FTA and chief of the Cana-

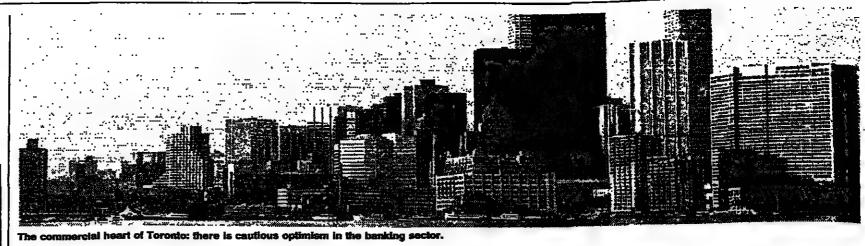
dian Institute for Advanced serach at the Simon Fraser University in Vancouver. Mr Lipsey contends: "No Govern-ment in power could concieva-bly tear it up." Even signifi-cant changes to the FTA do not stand a chance, he believes.

The reason is that the business community, which is calculated to be 95 per cent in favour of the agreement, would not tolerate undoing the FTA. "The markets would exact too high a price," says Mr Lipsey. FTA changes arises from the efforts companies already have made to adjust to the new regime. Surveys show that Canadian companies have restructured production away from protected areas of manufacturing and toward competitive exports. This has shifted investment and prompted

Although some of these moves occurred before the FTA. was in place, merger activity in Canada during the first six months of the agreement was 31 percent higher than in the same period the previous year, according to a study by the Royal Bank of Canada.

Overall, according to Mr. Doug Waddell of the Ministry of External Affairs, companie on both sides of the border are anxious to get on with it". During 1989, Canadian and US companies agreed to an accelerated cut of tariffs on 400 items covering approximately \$6bn worth of bilateral com-

Unfortunately, such FTA benefits as greater competitive-ness by Canadian companies are not yet publicly perceivable and do not rally support for a much-disliked deal.



Banking and financial services

# Preparing to face the storms

ALTHOUGH some of the pressures on US financial institutions have inevitably crept across the 49th parallel, there is cautious optimism that the Canadian banking system is better placed to weather the

"There are going to be shocks, but I don't think there are going to be systemic shocks," says Mr Michael Mackenzie, Canada's superin-tendent of financial institu-

He notes, however, that the strength of the system will not really be tested "until the heavy weather sets in and starts rocking boats." As in the US, the main area of concern is real estate, especially in the industrial heartland of southern Ontario where prices of houses, condominiums, office blocks and vacant land are coming down fast from the peaks of 1987-88.

Canada's six big banks between them have an expo-sure of about C\$130bn to real estate, of which C\$95bn is in residential morte.

Mr Terry Shaunessy, director of research at Merrill

Lynch Canada, takes a more pessimistic view of the banking system than Mr Mackenzie. Mr Shaunessy estimates that, excluding provisions for troubled Third World loans, the banks' reserves are equal to only 4 per cent of their exposure to commercial real estate and leveraged buyouts.

Another worry for the banks is the forest products industry.

which is reeling from prices and a series of strikes The banks' financial performance has so far been mixed. The two biggest, Royal Bank of Canada and Canadian Imperial Bank of Commerce, have been

But Bank of Nova Scotia Toronto-Dominion and National Bank of Canada are paying a significant price for narrowing interest-rate margins and past lending mistakes. National more than doubled

its loan loss provisions in the third quarter and will take a similar knock in the fourth to write off an C\$80m loan to Mr Robert Campeau, the troubled real estate and retailing entre-National estimates that its loan losses this year will be C\$246m, which is C\$100m more than it expected earlier in the

year. The office of the superintendent of financial institutions (OSFI) has sent one of its teams of senior retired bankers to review National's situation. According to Mr Mackenzie, "we're comfortable with its portfolio.

In other parts of the financial services industry, Central Capital, holding company for a diverse stable of interests including a sizeable trust com-pany, is in the midst of a sweeping restructuring after biting off more than it could chew in acquisitions and loans during the past three years. Royal Trust's share price has sagged by more than a third in

recent months, reflecting

CANADA'S BIG SIX BANKS

July 31, C\$bn Canadian Imperial Bank of Commerce 759.3 (723.9) 124.0 (114.9) 111.1 (100.9) 65.7 (80.3) 82.8 (80.3) 67.6 (63.2) .401.6 (463.6) .378.3 (348.6) .470.4 (527.4) .153.1 (208.7) Toront Medional Burns of Carachi Source: FT, Toronto

investors' concerns about its links to the unsettled mer-chant banking empire controlled by Toronto's Brontman brothers, its acquisition of several savings and loan institutions on the US west coast, and problems in its international operations.

One important point in the Canadian banking system's favour is that regulatory controls have been greatly tight-ened since the trauma of 1985 when a total of five banks dis-

Mr Mackenzie, whose office was strengthened after the rash of problems in the mid-30s, says OSFI now examines banks' books more frequently and more closely, and co-ordinates its work more closely with the Canada Deposit Insurance Corporation and with the provincial authorities which have jurisdiction over some trust and insurance companies

Thanks to the reforms of the past few years, regulation of Canada's financial industry is

now more centralised than in many other countries. OSFI keeps an eye on all federally regulated banks, trust compa-nies, insurers and a number of more specialised institutions. (Securities firms are still regulated by provincial securities commissions.) OSFI has set up auditors' advisory committees for each sector of the financial

services industry.

A joint task force of OSPI, the CDIC and the Ontario Government has been created to examine financial institutions' real estate exposures.

Mr Mackenzie is confident that the banks themselves have learned a lot from the 1985 experience and from their own problems in the 1981-82 recession. He points, for instance, to stronger boards of directors and closer co-opera-tion with auditors.

Ms Helen Sinclair, president of the Canadian Bankers Association, adds that "we're feeling a little bit vindicated after earlier criticism about our con

Driven by the liabilities rather than the assets side of their balance sheets, most of the insurance companies are burdened by fewer problem loans than the banks. A handful, however, do have a worry-ing exposure to the teetering US real estate market.

More than a dozen life assur ers have acquired trust compa-nies, which specialise in home mortgages, short-term deposits, and fiduciary services such as estates administration.

Life assurers, banks and trusts will be able to broaden their horizons further under proposals for regulatory reform published by the federal gov-ernment at the end of Septem-ber, The new rules, which Ottawa hopes will become law within a year or so, will significantly narrow the remaining gaps between the traditional four pillars of the Canadian financial services industry (banks, trusts, insurance comnanies and securities dealers). Banks will be allowed to

acquire insurance companies and trusts, while trusts and insurance companies will be able to acquire each other.

Existing curbs on trust com-panies' commercial and con-sumer lending will be lifted, transforming them into banks in all but name. Widely-held foreign financial institutions, such as mutual life insurance companies, will be allowed to set up banks in Canada.

#### The Goods and Services Tax

#### controversial initiative

Tax, the GST to be imposed next January marks Canada's most significant and also most controversial tax initiative in almost two decades.

The 7 per cent GST, which is closely modelled on New Zea-land's value-added tax, will be imposed (with some notable exceptions) on all goods and services, giving the federal government a potent new instrument of indirect taxa-

It has unleashed political atorms on several fronts. Although enabling legislation has already been passed by the House of Commons, the opposition Liberal party is using a variety of delaying tactics to stall passage of the bill in the non-elected Senste.

Rederal and provincial seven

Federal and provincial gov-ernments have been at loggerads over administration of the tax, particularly its har-monisation with the retail sales taxes collected by the Trade unions are demanding

higher wages to protect their members from the inflationary impact of the GST. And of course, many consumers — who already carry the heaviest burden of personal income taxes of any major industrial country - simply don't want to pay another tax. The GST gets much of the

The GST gets much of the blame for the Mulroney government's sagging popularity, though the government hopes that voters' will have stopped complaining by the time the next election comes around. The GST marks the second phase of the Mulroney govern-ment's tax reforms. In the first

OFFICIALLY called the Goods and Services Tax, but nick-annel the Gouge and Screw tax bases were broadened, while rates were lowered. (Some of these benefits have already been eroded however. by surtaxes on large companies and high-income individuals, and by higher provincial tax

> Assuming the GST is implemented as planned on January 1 or shortly thereafter, it will replace a 13.5 per cent manufacturers sales tax (MST), which was difficult to admini ter and put an unfair burden on domestic industry and exporters.
> The new tax has the tech-

The new tax has the technical advantage (but political drawback) of being a more visible and more broad-based source of income than the MST. It will be charged by all businesses, including retailers, on their domestic sales.

To ensure that only added value is taxed, vendors can claim a credit for any GST paid on their inputs. Exceptions to the GST will be either tax-free (zero-rated) or tax-exempt. In

(zero-rated) or tax-exempt. In the case of tax-free goods, no GST is payable, and vendors will be able to claim their full input tax credits.

Tax-exempt goods will also be free of tax, but no credits can be claimed. The three main tax-free categories are basic groceries, medicines and medical devices.

The definition of basic gro-

cery has led to much head-scratching, and there have inevitably been some anomalies. Biscuits and muffins for instance, have been classified as tax-free, but the full 7 per cent GST will apply to yogurt. Tax-exempt goods include financial services (with the

services and daycare. Special arrangements apply to several

To ease the burden of the GST on the poor, people with 1991 incomes below C\$24,800 can claim a tax credit of C\$190 per adult and C\$100 per child.

The credit will be reduced by

Many people worry that the tax will not remain at 7 per cent

C\$5 for every C\$100 of income above the threshold.

Small businesses with annual sales of less than C\$30,000 may opt out of the system, neither paying tax nor being able to claim tax credits on their purchases. ▲ 100 per cent capital cost write off will be available to any business to offset the expense of upgrading electronic point-of-sale or inventory-control systems

rebate of tax paid on their purchases. To case administration of the new tax, Ottawa has been eager to combine the GST with the retail sales taxes which are already levied by all

the provinces, except Alberta. Provincial governments have balked, fearing that they would lose control over one of their chief fiscal instruments, while also becoming the butt of pub-lic anger against the GST.

The federal government achieved an important break-

through in July when Quebec agreed to transform its 9 per cent sales tax into a val-

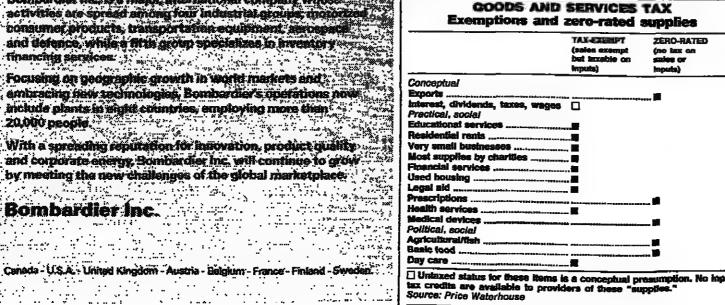
cent sales tax into a value added system, and combine collection with the GAT.

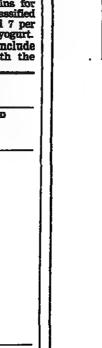
Mr David Perry, senior researcher at the Canadian Tax Foundation, predicts that other provinces will eventually come on board, but that they will demand in return wider discretion in setting provincial pertion in setting provincial personal and corporate income tax

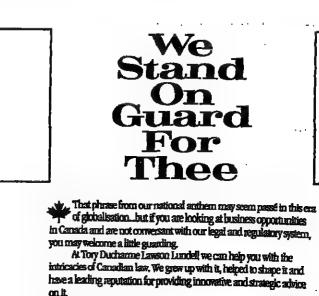
must weave their income taxes around the basic rates set by Otiaws. Even if the provinces do co-operate on the GST, businesses face some compliance headaches. Mr Perry cites the example of a salesman who takes a trip with stops in Van-couver, Edmonton, Regina and Toronto, each of them in a difserent province with different sales tax rates. Determining the correct level of input cred-its which the business can claim on the salesman's

expenses could be a nightmare.
For all its flaws and current unpopularity among consumers, the GST has been widely welcomed by business as a long-overdue step towards a fairer, more competitive tax system. The one universal con-cern is that the rate may not stay at 7 per cent for long as the politicians of Ottawa — of whatever stripe — succumb to the temptation of milking a very fat revenue cow.

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# In these rocky times, still rock steady.

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We're not having a record year.

We're not even having the best year in our history. (Who is?)

177

mag

But we're certainly not having our worst year.

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# Feelings run high

SINCE the 1870s, five political reform movements have emerged from Western Canada to voice the area's perennial feeling of being ignored by the federal government. Most of these movements have faded ingloriously into the sunset but the latest, the Reform Party, is giving Ottawa politi-

The Reform Party's message, tinged with conservative populism, is about national rebirth.

Coming as it does in the midst of Canada's current national turbulence, this idea appears to be falling on fertile ground. Since its founding in 1987, the party has steadily gained adherents and admirers. It will double its membership this

In a recent Gallup poll, Reform was favoured by 7 per cent of all Canadians (almost half the backing for the ruling Progressive Conservative party). Gallup credited it with 23 per cent in the prairie prov-inces and 20 per cent in British

Mr Preston Manning, the Reform leader, says, "the old Canada is dying and a new Canada is being born." In Mr Manning's mind, new Canada will respond more to Western provincial interests, undo the welfare state and cater no longer to French Quebec's demands.

In the massive swathe of territory that runs from Ontario to the Pacific, Mr Manning's sentiments are widely shared Westerners are fed up with being economically and politi-cally anubbed by Ottawa and they resent the money spent to impose bilingualism nationally although French alone reigns

One area of central Canada's favouritism which arouses frequent controversy is federal government procurement. The prairie provinces of Manitoba, Saskatchewan and Alberta won just 15.7 per cent of Gov-ernment contracts during the 1989-1990 fiscal year. British Columbia accounted for only another 5 per cent. Ontario held the lion's share with 48.2 per cent and Quebec claimed 20.4 per cent. Another source

of annoyance is taxes. of smroyance is taxes.

Alberta, the home of Canada's energy industry, has made huge contributions to the federal treasury in the form of energy taxes, but feels it has had little federal Government attention in return. It has thus become an epicentre of a popu-lar tex revolt against the 7 per cent goods and services tax,

Federal go	t procure	procurement			
	Contracts	Six value	% of total		
lewfoundland	8,014	167.8	22		
<b>a</b> ,,		23.9	0.3		
ova Scotla		366.4	5.0		
ew Brunswick		203.3 ·	2.8		
webec		1.488.2	20.4		
interio		3.519.4	45.2		
		353.4	4.8		
askatchewan		84.9	1.2		
<b>berta</b>		705.9	9.7		

which Albertans say they will refuse to pay. Although the Liberal party has opposed the tax in the Senate, this seems a political gambit to take advan-tage of the GST's unpopularity. The Alberta oil and gas industry, which before the Iraq-Ku-wait crisis had been suffering want crisis had been sintering from a slump in energy prices, has subsequently perked up. However, Albertans have seen price swings come and go and are not jumping quickly to

Yukon and NWT ...

invest or spend.
Mr Dan MacNamara, vice president of the Canadian Petroleum Association in Calgary, says "you don't make a project based on the war." Conventional oil reserves in Western Canada are in decline. Reserves in producing fields declined 4.1 per cent in 1989 to 4.7bn barrels, following a 34.7

> Report by BARBARA DURR

per cent drop in drilling activity last year. Unconventional reserves,

such as those in the Arctic, could mean new investment but they cannot be economically tapped without a sustained high oil price. Although C\$4bn worth of energy properties from 40 companies in Alberta were on offer until last June, only about half have been sold, according to Mr Frank Sayer, of Sayer Securi-ties in Calgary. Uncertainty about the market and the value of properties has plagued sales. While oil prices have risen 50-100 per cent, oll com-pany share prices have risen only 5-10 per cent.

These share increases came

as the Toronto Stock Exchange overall fell by about the same amount. Gas pipeline projects currently under consideration could bring a boom to Alberts, ince is cautious. Consumer spending is expected to rise moderately. Low world prices for a bumper grain crop are

more deeply affecting Mani-toba and Saskatchewan, which are less diversified than Having managed to recover from the 1988 drought, the prairie provinces are now fac-ing a dramatic drop of 44 per cent in farmer income com-pared with 1989. Net farm income in Saskatchewan alone will fall 68 per cent, according to Prairie Pools, the combined

organisation of farmer co-oper-ative pools in the three prairie rovinces. Production growth in Saskatchewan will rise to 5 per cent this year, but Mr Tim Whitehead, a regional econo-mist with the Canadian Impe-rial Bank of Commerce, called the province's income situation t dreadful.

Manitoba's difficulties on the grain trade will be slightly off-set by gains in livestock pro-duction which will be helped. by lower grain prices - and some other economic diversifi-cation. But net emigration, modest real wage growth and alow expansion of employment will keep consumer spending and construction down.

If there is a bright spot in the West it is British Colum-

bia. For the last three years, BC has outpaced the rest of Canada in economic growth and 1990 is expected to con-tinue the trend. Although the province's economy is subject to swings in the prices of its main commodities - minerals and forestry products - it has drawn its economic dynamism from an enormous influx of immigranis.

parts of Canada or abroad to British Columbia.

BC's magnetic force is expec-ted to continue to draw immi-grants through 1991. Such strong population growth has boosted the services sector in particular. Overall employment growth is expected to run 2.7 per cent this year after a 5.7 per cent increase in 1889. A new, clearly defined political relationship is sought with Ottawa

# Quebec wants more autonomy

important change in Quebec public opinion this summer. Most people in the Frenchspeaking province now believe

it must negotiate a new rela-tionship with English Canada.' The change follows the col-lapse in June of the Meech Lake Accord. Quebec's Frenchspeakers, 80 per cent of the province's 6.5m inhabitants, had regarded the Accord as a test of English Canada's goodwill. It recognised Quebec as a "distinct society" and offered other concessions over autonomy and funding.

omy and funding.

Quebeckers thought it a fair
price for their province's
assent to the constitution in
1990, and Quebec's federalist
premier, Mr. Robert Bourassa,
had staked a great deal on it.

But it was subsequently
repudiated by English Canadanians who felt that 25 years
of federal convessions had of federal concessions had already sufficiently awarded Quebec in terms of special status. Now the message from Canada's second largest prov-ince in: "They rejected our modest demands — what does

In 1982, the government of

had rejected former prime minister Mr Pierre Trudeau's terms for signing the Canadian federal constitution, saying his "new federalism" was more centralist than the old. There has long been a 20 per

the separatist Parti Québécois

cent minority in Quebec demanding political and economic independence, a supreme National Assembly in Quebec City, a unilingual French-speaking community and ultimately a Quebec dollar. and utitimately a Quebec dollar.

Now there is a re-think at
the centre. A hig majority, perhaps 70 per cent according to
opinion polls, is no longer willing to accept Canada's post
war status quo and the perennial federal-Quebec dogfights
over jurisdiction and money.

It wants a new clearly It wants a new, clearly defined political relationship with Ottawa which would give Quebec more autonomy while leaving the economic ties mostly undisturbed. For some

this means a form of "sover-eignty", a term now used with abandon throughout Canada. The centre has found many new voices, some strident, as in the extravagant claims of the provincial Chamber of

lying areas as well as Mon-treal. But they also include senior French-speaking business leaders such as Mr. Claude Beland, who heads the \$36bn. Desjardins credit union movement, and Mr. Claude Castonguay, former senior Quebec Cabinet minister and retiring chairman of the Lau-

The centre has found new voices, some strident, says **BOB GIBBENS** 

rentian Group.
Until June, when the Meech
Lake Accord was rebuffed by
English Canada, Quebec's business community had been staunchly federalist. In the 1980 referendum on independence for Quebec, it cam-paigned hard for the "no" side. But business sector now feels frustrated by English Canada's refusal of what it regards as a moderate settlement. Post-Meech emotions ran high, but they have been distracted by

the Mohawk crisis and Cana-dian Army intervention, Indian claims for broad political sov-Commerce, representing smaller businesses and the out-

ereignty, a stagnating economy and escalating oil prices. The Parti Québécois, now in opposition and led by former Finance Minister Mr Jacques Parizeau, 60, has carefully avoided fuelling the fires, but wants an immediate referendum on independence. Mr. Premier Bourassa, 57, re-elected in 1989, rejects outright

independence. With the ending of the Mohawk crisis, his strat-egy is to regain control of the political arena. He must set the stage for the next provincial election in about three years and has set up a non-partisan roving Parliamentary Commission to draw up a concrete set of demands for Quebec's assent to the 1981 Committation.

The commission is due to report early in 1991.
Though federalists will hold a majority, the commission's report will undoubtedly renew Quebec's demand for recogni-tion as a "distinct society" and list demands for more auton-omy in language and cultural affairs, immigration and possi-

The Quebec Liberal Party has also formed a committee to nag also formed a committee to set up a constitutional plat-form for the next provincial election, to be adopted at its policy convention next May. The Bloc Quebecols, a nine-

member pro-Quebec group formed by Mr. Lucien Bou-chard, Mr. Mulroney's former Environment Minister, bas had a strong initial impact through the province, unnerving the post-Meech Lake Conserva-tives. But it is not clear whether Mr. Bouchard, 52, can maintain momentum for his recipe for separation.
On the economic front, Que-

bec cannot escape the detarioration in North America as a whole. In the 1982-83 recession, its manufacturing sector suf-fered a terrible blow. The recovery that peaked in 1968 brought relative social peace. enhancing business's faith in its ability to create wealth. But that consensus broke down in 1989-90. Quebec has a low birth rate, an ageing population and steadily rising health costs accounting for 30 per cent of its C\$35bm budget.

#### A shadow cast over Altantic provinces

CONSTITUTIONAL squabbles and a slackening economy are casting a shadow over Atlantic Canada. While public reaction has so far been muted, politiclans and pundits in the four eastern provinces (Newfound-land, Nova Scotia, New Brunswick and Prince Edward Island) have pegged the death of the Meech Lake constitutional accord last June as the most significant event of the

Now that Quebec seems set to press for looser links within Confederation, the four provinces to the east are worried that forthcoming changes will threaten the generous transfer From 1987-1989, 300,000 peo-ple migrated either from other payments they receive from the rest of Canada.

> "The fear is simply this: Quebec comes up with a new form of association with Canada and it makes it more difficult for this region to prosper. You're back to the scenario that ithis region is the Bangladesh of Canada," says political scien-tist Agar Adamson.

An independent economic think-tank reinforced that sosnario in a recent study examining the impact Quebec's separating would have on Atlantic Canada.

The Halifax-based Atlantic Provinces Economic Council predicted cuts in living standards for the region as other provinces become more reluc-tant to bankroll their poorer

cousins once Quebec left.

The four Atlantic provinces are handicapped by a dearth of powerful voices in Ottawa to represent their interests. International Trade Minister John Crosbie from Newfoundland, one of the most powerful mem-bers of the federal cabinet, is expected to leave political life within the next two years.

The remaining high profile politicians all face obstacles in trying to get the country's attention. Prince Edward Island Premier Joe Ghiz is hamstrung by the small population and miniscule economic

clout of his province. Nova Scotia's governing Progressive Conservative party is temporarily leaderless until a replacement is found for long-serving Premier John Buchsman, who left office under a cloud in September to take up a seat in the faderal Senate. Clyde Wells and New Brun-swick leader Frank McKenna earned Quebec's animosity for

their opposition to the Meech Lake Accord. McKenna's low standing in Quebec hasn't prevented him from trying to direct the national agenda. In mid-Sep-tember he called for renewed efforts to create a constitu-tional agreement that Quebec

would support. He also launched a call for a Maritime economic union. The second proposal calls for forming a single integrated eco-nomic unit made up of the all the Atlantic Provinces except

Newfoundland.
While McKenna's second proposal is modeled after post-1992 Europe, the idea of a Mari-time union is as old as Canada. But Philippe Doucet of New Brunswick's University of Moncton, says McKenna will not win much public support. Doucet says Atlantic Canadi-ans are tired of endless debates

on issues like the constitution.
Language tensions are already simmering in New Brunswick,
Canada's only officially bilin-

gual province.
Further pressure to meet
Quebec's aspirations could
anger the growing Confederation of Regions Party, a political rump group opposed to bilingualism. The Maritime union idea is unlikely to take hold unless it is forced on the

public by an impending crisis.
"Unless there is some sort of catastrophic pressure, I can't see anything happening that will force us into regions," Susan McCorquodale of New-foundland's Memorial Univer-

sity says. That sense of crisis has not yet materialised. An August survey by Halifax-based Corpo-rate Bessurch Associates found 68 per cent of Atlantic Canadians doubt Quebec will separate. Thirty-eight per cent thought separation likely.

More than half of the 1,500

people surveyed thought Que-bec's departure would result in no change or an improvement in living standards in the region. Another 37 per cent thought standards would drop. Business groups, however, welcome the idea of a Maritime economic tmion. APEC president Tim O'Neill says greater co-operation makes sense in a global environment of falling trade barriers. The mamediate

The four provinces voices in Ottawa, says MICHAEL REDMOND

threat to the region is the recession now gripping the country as a whole.

A shrinkage in federal gov-ernment revenues will likely lead to cuts in transfer payments to the provinces. Despite being the poorest province in Canada, Newfoundland may escape the recession relatively

resource industries is a threat, it is offset by construction of the massive Hibernia offshore oil project. In mid-September the prov-

ince, Ottawa, and a consortium of oil companies finally put in motion development of Hiber-nia. The \$5.2bn project will see 10,000 jobs created in the province over the next six years. APEC's Tim O'Neill savs

Hibernia's spillover effects will help all four provinces. But it will not be enough to pull Nova Scotia clear of a reces-

The province's large fishing industry continues to suffer from cuts in catch quotes, which have led to numerous plant closures and layoffs in rural areas.

Nova Scotia's exports and manufacturing sector have already started slowing in line with national trends. If prices for pulp and paper and metals slip further, New Brunswick will also fall into recession, APEC officials say.

# Enjoyment in a cold climate

Canadians' thoughts turn to "heading south" for the sunspots of Florida, the Caribbean and California. Those left in the Frozen North have little choice but to make the best of the frigid temperatures, blizzards, ice and slush that are the hallmarks of a Canadian

Surprisingly, though, it is possible with little of effort not only to survive winter in Canada but to enjoy it. The secret

- for both Canadians and their visitors - is to make that extra effort.

The short days and long nights from December to March can be a bore for the ill-prepared or unadventurous. Shovelling snow from the driveway, window shopping or sitting morosely in some high-rise hotel roum can all too easily dominate the winter rou-tine. It is no co-incidence that those who complain loudest about winter are often the "conch potatoes" unable to spot any opportunities for fun-beyond their television sets. Setting foot outdoors does

have its hazards. Frostbite is a risk for anyone venturing out without warm gloves and boots. Icy roads and pavements are a constant hazard for both drivers and pedestrians. On the

prairies, desperate people even commit suicide in January or February by simply walking outside and taking off their clothes in the minus 40 deg C But Canadians have learnt to adjust to their hurah climate

to the point where winter can be as full of outdoor fun as any of the other seasons. Most of the main Canadian cities are within an hour or two drive from downhill and cross-coun-

from downhill and cross-country ski-ing.

Whistler, about two hours' drive north of Vancouver, has become especially popular among downhill skiers in recent years. The ski-ing and the scenery around the Rockies resorts of Banff and Lake Louise are on a par with anything North America has to offer.

An invitation to one of the elegant privately-owned ski clubs north of Toronto also guarantees an enjoyable Satur-

day or Sunday.

Many country inns have excellent cross-country ski trails. For the less energetic, their facilities also usually include their facilities also usually include sleigh rides, saunas, indoor swimming pools and, of course, a superb table. Among the popular inns are Benmiller Inn and Deerhurst near Toronto, Auberge North Hatley in the Eastern Townships of Quebec, and Le Chantecler and La Sappinière in the Laurentisms north of Montreal.

For those looking for something closer to home or hotel, there is cross-country ski-ing in city parks and along golf courses; tobogganing on just about any slope (even the inclines at the side of raised highways); and, of course, los skating. Toronto alone has 170 skating rinks, many of which do double-duty as tennis courts during the summer. One during the summer. One which unfortunately, is often over-crowded — is located right next to the city hall oppo-

site the Sheraton Hotel. The less-energetic might consider an after-dinner drive city neighbourhoods in the three or four weeks before Christmas, when many Canadians decorate the outside of their homes with coloured lights. Some of the displays are spectacular, especially after a fresh snowfall. A foreign visitor planning a winter trip to Canada needs to make some

#### Winter tips for **BERNARD SIMON**

eral guide, cities on the pra-ries (Winnipeg and Edmonton, for instance) are coldest with the temperature regularly falling below minus 30 deg C. Next Montreal and Ottawa, which tend to have more snow

than the prairie cities. Except for a few ultra-cold snaps, the temperature in Toronto is normally just below freezing, and weeks can pass without any snow on the ground. In Vancouver, one is more likely to strike rain than snow, even in January.

Suitable clothing is essential, including a heavy overcoat, a scarf, gloves and a hat. Over-shoes (commonly called rubbers) or boots are a must to give a better grip on roads and pavements, and to prevent damage to shoes from the salt which is liberally spread over city streets after a snowfall. Winter underwear is not necessary for a business trip, as all office buildings and shops are well (sometimes too well)

For those wanting to take part in winter sports, skis and skates can be rented. Anyone not accustomed to driving in wintry conditions should rely as far as possible on public transport or taxis, rather than hire a car.

If you must drive, make sure the car has a plentiful supply of windscreen cleaner, and a scraper to clear the windows of ice and snow. Above all, drive carefully and slowly.

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In spite of impressive economic and industrial growth made in Italy during the 1980s, the legacy

of the political negligence of that decade now has to be faced. The potential effects of the Gulf crisis are adding to a growing mood of anxiety, writes John Wyles



THERE IS a fluttering in the italian air which can only he described as the sound of a few chickens coming home to roost. The 1980s were by no means a wasted decade, given the robustness of Italy's indus-trial and economic recovery, but the political errors and lost opportunities of those years are beginning to sour a mood in industry which had already turned sombre before it needed to take account of the effects of the Child griefs. the Gulf crisis.

Italian moods, like the Roman sky, can swing from sunshine to rain in very quick order. But the decline of bright optimism about the industrial future has been building up for some time, in parallel with a slowing of the economy and an obviously less cheerful outlook

for profits.
The anxieties focus most strongly on competition and political interference in the public sector, and they have adopted as their emblems this year's extraordinary struggle for control of the Enimont public-private joint venture and Fiat's recent exchange of shares and assets with CGR of

France.

The first has begun to rivel.

Rismarck's celebrated Schles.

wig-Holstein question for obscure complication. It is being marked down, however, as a failed exercise in publicprivate collaboration more because of a clash of business occase of a class of personalities, such coltural conflict emerges most clearly, as in the Enimont case, when the changing condi-

tions of the market require swift responses and job losses. ENI, the state energy com-pany, was politically unable this year to respond to the urgings of its partner, Montedison, to reconsider their previously agreed business strategy, because Italian politicians cannot be led that quickly into creating unemployment.

Nor will they easily bend the knee to the urgings of Montedison's president Mr Raul Gardini. For the Italian political class is above all proprietorial and one of its justifications for controlling about one third of national output is that the public sectors are a counterwilling he sector acts a countervailing power to the private sector grandees, Agnelli, De Bene-detti, Pirelli, Gardini, Berlus-

ness of Italia Inc whose ideologues in both the government and public industry propose a



consolidation of national industrial power so as to create units of a size to compete in world nursuis. A little fieribility and imagination, and above all political freedom, would have enabled IRI, the state holding company, to match most, if not all, of the componemts of Fiat's deal with CGE. But the political omens were hostile to the necessary reshuffling of assets between public and private and the opportunity was lost.

Much has been made in Italy about the emerging Italian-French axis which the Fiat-CGE deal highlights. IFIL, the Fiat Group's financial holding company, is already the major operator in the Italian food industry through its alliance with BSN-Danone while Mr Carlo De Benedetti also has extensive French interests through his CERUS holding

Although these links may ultimately represent a sizing to counter German industrial power, the exchanges of share-holdings are also in Plat's case a defensive manosuvre against coni.et al. Herein lies the basic weakunfriendly takeovers in partnership with the product of a compatible business culture. Mr De Benedetti maintains

that apart from the structural obstacles to making acquisi-tions in Germany, there remains the simple fact that it is difficult to persuade good German managers to work for Italian companies. The Flat-CGE deal certainly

displeased some top politicians to the extent that Confindus-tria, the industrialists organisation, even anticipates some possible retaliation. It is unlikely, however, to provoke a serious political rethink about privatisation or relaxing political controls on the public sector because these are essen-tial to maintaining the founda-tions upon which the Italian

system of "partitocracy" (party rule) is based. The system will cling to the notion that the public sector is needed as a countervailing needed as a countervalling power to the private, although it has been emptied of serious content by the recent passage — after three years of debate and two of legislative travail — of anti-trust legislation.

Objectively, this should pro-

vide the framework of rules for regulating the exercise and growth of private sector indus-irial and economic power, but only fundamental reforms of

to transfer power and control to the ordinary citizen can begin to roll back the frontiers of party control.

of party control.

No such reform can be expected under the present coalition led by Mr Giulio Andreotti whose policies are becoming the despair of the private sector and also of many public managers. It is not that Mr Andreotti's government is so much worse than many of its predecessors, nor that it is migne in falling to find conunique in failing to find con-vincing responses to chal-lenges such as the public sec-tor deficit and woefully uncompetitive public services. The problem is that Mr And-

reotti and his leading minis-ters, largely Christian Demo-crat but also some Socialists, have seriously widened the gap in Italy between action and rhetoric on so many of these

natters.
It is also that they do not seem to care; only this month they have promoted to the presidency of EFIM, the smallest industrial public holding company whose debts of more than 15,000bn (£2,199.78m) exceed its annual turnover, a Socialist who was vice-presi-dent of the group during its recent disastrous deterioration.

Such a move pains and troubles many industrialists, both public and private because of a sense that time is running out: time to find a lasting solution to public deficits before the

markets deem that they are incompatible with membership tem and participation in the move to European Monetary Union; time to give public industry and services more freedom to manage and to price their services. Time to create a railway sys-

tem which can move people and goods with competitive efficiencies; time to launch a policy of diversified energy supply to soften the savaging effects of a \$40 or \$60 or \$80 per barrel energy price; time to reform the tax structure so that private companies do not that private companies do not carry greater burdens than their counterparts in the EC: time, in sum, to address the structural handicaps which may well seriously impede Italian growth in the opening of global industrial and financial markets in the 1990s.

"I think we are heading for five years of crisis," says one observer at Confindustria. Tempers are running high and language is running low in

the Italian industrialists' organisation partly out of a sense of frustration. The government, it is said, does not understand and does not want to understand the private sector and the market

The Italian Catholic tradition has always been some-what weak on such matters. Mr Andreotti understands above all politics, power and maximising consensus. These are the principles which inform all of his government's important policies, from the budget to industrial organisa-

prime minister, Mr Andreotti's style is to warn that the budget deficit will bring the nation to collapse and then to produce proposals for reducing it which are based on unsound numbers, a minimum of reform and of no threat to any particular interest group.

The 1991 budget proposal

may seem to be a sad commentary on the effectiveness of Mr Guido Carli, the treasury minister and former governor of the Bank of Italy, whose appointment had the result of giving the government a cloak of financial rectitude. In reality, Italian treasury

ministers suffer from the fact that budgetary responsibilities are divided between three min-istrice, a device which has ensured that financial recti-

IN THIS SURVEY

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tude does not prevail.

The only other significant voice arguing for a fundamen-tal attack on budget deficits and more coherent industrial policies is that of Mr Adolfo Battaglia, the industry minister. But he comes from the small Republican Party (3.7 per cent of the vote in 1987) and consequently is rather short on

Mr Battaglia fights a lonely battle for more liberal eco-nomic policies, more privatisa-tion and a coherent approach to sustaining the spinal colsmall and medium-sized busi-nesses. But he is no match for Mr Andreotti who knows little about industry except that it can be a good source of funds, and his genial henchman, Mr Paolo Cirino Pomicino, minis-

ter for the budget.

The primacy of politics in the Andreotti administration means surviving until the next general election (almost cer-tainly next year).

Continued on Page 2

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FINANCIAL TIMES TUESDAY OCTOBER 23 1990

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ment is needed. Early optimism that the crisis might be short-lived and that the oil price might settle at a level no higher than \$25 next year is now giving way to darker fears and some sharp regrets.

With the price hovering around \$40 and authoritative estimates emerging that next year's average may not be a great deal less if there is a war in the Gulf, there is a growing anxiety about the consequent impact on domestic inflation, the trade balance and the exchange

As brows furrow, there is a predictable tendency among industrialists and some politicians to regret the choice made by referendum in 1987 to forego the employment of nuclear energy as a major source of electricity. Despite the difficulties caused by previous oil crises, Italy remains dependent on imports for 82 per cent of its energy require-ments, even though its use of energy is more efficient than it was

The conundrum facing all forecasters centres on the judgement about the impact of the "Gulf factor" on an economy that was already showing some signs of slow-ing. For the first time for many

when, as legend has it, the wool textile manufacturers of

Biella used to stamp "Made in England" on their cloth in

order to win business abroad.

say that we've at least equalled

our teachers," says Mr Reno Roj, the chairman of the Biella

sents the region's 5,000 local companies, two thirds of which

are in textiles or textile-related

Many of his colleagues in the

region - which accounts for over a third of Italy's woollen textiles production and is the

country's undisputed centre

for top-quality mens' wooliens - would go much further.

ers have reached the stage where "Made in Biella" carries

as much, if not greater, weight

than the once-famous names of

the Bradford, Huddersfield and

other mills they so wanted to

accounts for 70 per cent of Italy's production of combed

wool textiles, 45 per cent of its worsted spindles, 20 per cent of its woollen spindles and 22 per

More materially, that trans-

Today, the Biella region

For the region's manufactur-

"As all good students, let's

The Gulf crisis has plunged a sinking economic confidence lower still, writes John Wyles

# Brows of industrialists begin to furrow

years, the output in the second quarter fell slightly, by 0.2 per cent, compared to the first quarter with industrial production sliding by 2.8

Textiles, engineering and transport were foremost in registering falls in production. By the summer slow, or even negative, growth prospects in various markets at home and abroad were causing some companies to announce temporary lay

Foremost among these has been Fiat Auto which is laying off 30,000 workers for periods this autumn because of a fall in market share in Italy and slackening demand in Europe. Such developments, along-side the Gulf crisis, have helped to plunge the index which measures confidence in the economy among Italian families to one of the lowest levels in recent years.

A year ago, the official government expectation was of a 3.4 per cent growth rate this year. By May this had been revised down to 3 per cent and was further shaved to 2.9 per cent when the government presented its 1991 budget proposals last month. This is still more optimistic than most private forecasts, although very few of these have yet. Both next year's estimates are a far taken account of the impact of a cry from the government's inflation higher oil price.

However, the research department at Confindustria has been quick off the mark with forecasts based averages of \$25 and \$35 per barrel. The former price yields a growth rate this year of 2.4 per cent and of 2.3 per cent next year. The higher oil price's effect is more dra-

Italy leans heavily on imports for its energy

matic, cutting next year's rise in gross domestic product to a very modest L6 per cent.

The balance of payments deficit on the current account would rise from 1.2 per cent in 1989 to 1.3 per cent this year on \$25 and 1.6 per cent on \$35 per barrel. The same deficits next year would be 1.7 per cent or 2.4 per cent of gross domes-

Inflation, meanwhile. would climb from 6 per cent last year to 6.1 or 6.4 (\$35) per cent this year and

objective of 5 per cent, which assumes a \$25 per barrel oil price. But there was, as the Americans say, "an awful lot of air" in the numbers which the government pulled out of its hat when present-ing the 1991 budget last month. So loose has been the control of spending on health and pensions that deficits in Italy is more akin to the art of the water diviner. The past three years have been marked by

even then these failed to achieve the original deficit targets. As prime minister Mr Giulio Andreotti, and Mr Guido Carli, the treasury minister, have been repeatedly stressing, the political and eco-nomic arguments for capping Italy's spiralling debt are unanswerable. The deterioration since 1986 has been severe, maintaining Italian interest rates well above European averages, crowding out the private sector in the process, and ulti-mately threatening Salian partici-

supplementary budgets to bring the fiscal process back on course, but

nomic and monetary union.

In the past four years, the volume of outstanding debt has soared from L768,091bm or 85.6 per cent of GDP, to an estimated L1,290,000bm or 99.47bm of GDP this year. Despite repeated efforts — according to some experts not as skilfully directed as they might have been the authorities have failed to extend the average maturity of the debt

Deterioration since 1986 has been severe

which now stands at around two and a half years. Quite deliberately, and with characteristic Italian masochism, the Bank of Italy and the Treasury have reduced the room for economic manoeuvre by putting the lira into the narrow 2.25 per cent margin of fluctuation band of the EC's Exchange Rate Mechanism at the

start of the year. Given that interest rates are the only tool available both for debt funding and managing the lira it is

raw wool prices.

not difficult to foresee potential policy conflicts. For example, weakness in the fira induced by rising oil prices possibly requiring higher interest rates, which in turn push up the cost of debt servicing when it has already reached around 90 per cent of this year's total proj-

Alternatively, moves to raise. domestic interest rates to guarantee funding could serve to strengthen the lira excessively and to compli-cate management of the exchange rate within the ERM's margins.

ected deficit of around L140,000bn.

The government's medium term economic plan aims to begin reduc-ing the volume of outstanding debt as a percentage of GDP from 1993. To this end, next year's budget is of primary importance because it aims for the first time in well over a decade to produce a surplus - of L8,100bn - on current spending not of interest payments. Ministers hope that this prospect will reassure the markets to the extent that interest rates, and therefore interest costs, will fall during the course of

But one cannot escape the feeling that too much is being attempted

"on a wing and a prayer". A feeling "on a wing and a prayer". A reeling apparently shared by Mr Carlo Azeglio Ciampi, governor of the Bank of Italy, who recently told a parliamentary committee that it was virtually impossible to know whether some of the government's proposals would actually yield the amounts indicated.

mounts indicated. The trend budget deficit for 1991 says the government, is around L120,000bn, and it is postulating spending cuts of L30,000bn, extra revenues of Lis,000bn, the sale of

L5,500bn of state assets and a 13,000bn saving on interest costs. However, some spending cuts are merely postponements of disbursements and projected revenue increases are partly based on optimistic outcomes for a further clampdown on evasion and an optional facility for companies to

revalue their assets. Interest savings, meanwhile, are very much hostage to developments in international interest rates which, in turn will be determined by the Gulf crisis and policies in Japan, Germany and the US. Some economists doubt that the govern-ment will save more than half of the L48,000bn it is seeking.

Italy cannot afford to miss its budget targets for 1991. But uncertainty in the international economy and doubts as to whether it is seri-ously addressing the underlying causes of its budgetary imbalances suggest that tougher additional measures will be needed next year.

#### TEXTILES: BIELLA

# Region acquires renown abroad

lates into an unemployment rate of just 3 per cent, and the highest female employment figure in all Italy. The area has the country's sixth highest per

capita income.

Biella's prominence has stemmed from a mixture of luck, enterprise and tradition. Its climate and location at the north-western edge of the country beside the Alps, have provided the right mix of umidity, clean air and plentiful water to establish a role in textiles which some date back

to Roman times. But Biella's industrial ascendancy stems from more than just canny entrepreneurs. Rather than alming for vertical integration, the local textile industry adopted a specialised approach which remains its

weakness, specialisation has contributed to the region's rep-utation for fine goods as small family firms have devoted themselves to developing their expertise in specific stages of he production proces

Bialla has been able to other something extra in every phase of textiles making," says Mr Enzo Vizzari, the director of the Industrial Union. Luck has also played a part

in Biella's rise to prominence. Although it is Italy's focal point for top-quality woollens, it is one of three centres in the country, with Prato and Vicenza, for the wool textiles. The fact that Biellese manufacturers opted for combing rather than carding - the method of production used in Prato - worked to their advan-

For while carding produces a heavier weight cloth, combing is the only way to make the lightweight woollen fabrics which have become increashallmark today. Instead of being a source of ingly important to designers and manufacturers around the

The change in fashions has

put the onus on Biella's yarn makers to produce ever thin-ner threads capable of creating the new lightweight woollens. Moreover, yarn makers have also been obliged to come up with a wide variety of mixtures, such as wool and slik and wool and cashmere, in order to meet the market's demand for increasingly sophisticated cloths.

Fierce competition between the region's companies has undoubtedly been a key ele-ment in keeping it at the fore-front of the textiles industry. For despite a brief shift towards vertical integration in the 1960s, specialisation, based on the tradition of small-to-me-dium-sized family companies, remans characteristic. Bellia, the biggest of the local textiles groups, employs only 800 staff. It is followed by

Zegna and Botto, with around 550 employees each. Thereafter

come 13 companies with between 250 and 500 employ-

ees, and 50-odd firms with 100-250. After that, the average size

drops sharply. The vast major-ity of Biella's textiles firms are much smaller concerns, often employing 10-15 people. And none of its groups, irrespective of their size, is publicly-quoted The weavers and yarn makers which dominated the region have given birth to a variety of other, textile-related

Textiles machinery is the most prominent, with the region housing a number of the country's top names. Other firms, like Mr Roj's own Ro Electrotex, make the sophisti cated electronic control pro-cesses that make the machines

Despits its thriving entrepre-neurial spirit and obvious wealth, Biella has some problems. Most prominent at present are the those confronting many yarn producers which are facing a financial squeeze

Despite having bought dearly in previous seasons, the yarn makers have been obliged to cut their prices to levels based on the current denre rates for raw wool. That has created a painful pincer move-ment that led one firm to close

as a result of the collapse in

"It is only a one-off process, and yarn-makers make will: make windfall profits again if raw wool prices move up again" says Mr Giorgio Frig-nani, chairman of the Vercelli Chamber of Commerce and a

well-known yarn producer. Biella's other problems are all longer term. Although Turin Polytechnic — one of Italy's leading centres for science and engineering — has now set up a textiles branch at the Citta degli Studi, most of Biella's youngsters still have to

leave the area for their tertiary education, creating the danger of a growing skills shortage. ficulties now being felt by the yarn makers, persuading the youngsters to stay on may be one of the region's biggest challenges in the longer term.

Haig Sknonlan

#### The mood darkens



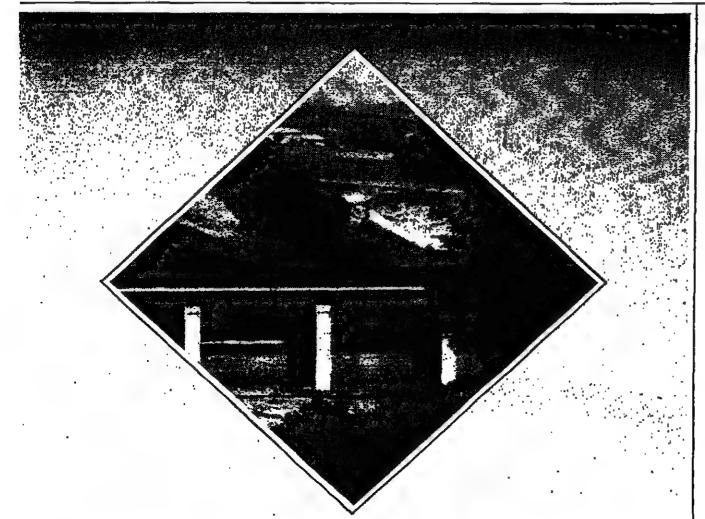
Continued from Page 1 The survival kit contains lashings of baim for placeting the Christian Democrats' principal partner, Mr Bettino Craxi and the Andreotti faction. The result is a focus entirely

on the short term which stokes up private sector wage demands by delivering wage increases for public employees around 40 per cent above those decreed by the government's public spending strategy, appointments to public compa-nies and banks aiming more at political subordination that managerial professionalism, and above all, the avoidance of conflict with powerful social groups such as the trade

unions.

While one does not have to accept all of the case which Confindustria makes about a serious underlying decline in industrial competitives. ear to the problem. When Con-findustria earlier this year rather clumsily tried to force a confrontation with the union which would do away with the scala mobile system of wage indexation, there was no sup-port and very little understand-ing from the government. It intervened instead to shelve the issue until next

summer and it will certainly not be addressed then if there is an election in June. If Confindustria's expectations of industrial crisis are fulfilled. then there will be a grudging political response on this and possibly broader issues of industrial organisation and ownership. If not then it will be politics as usual in Italy.



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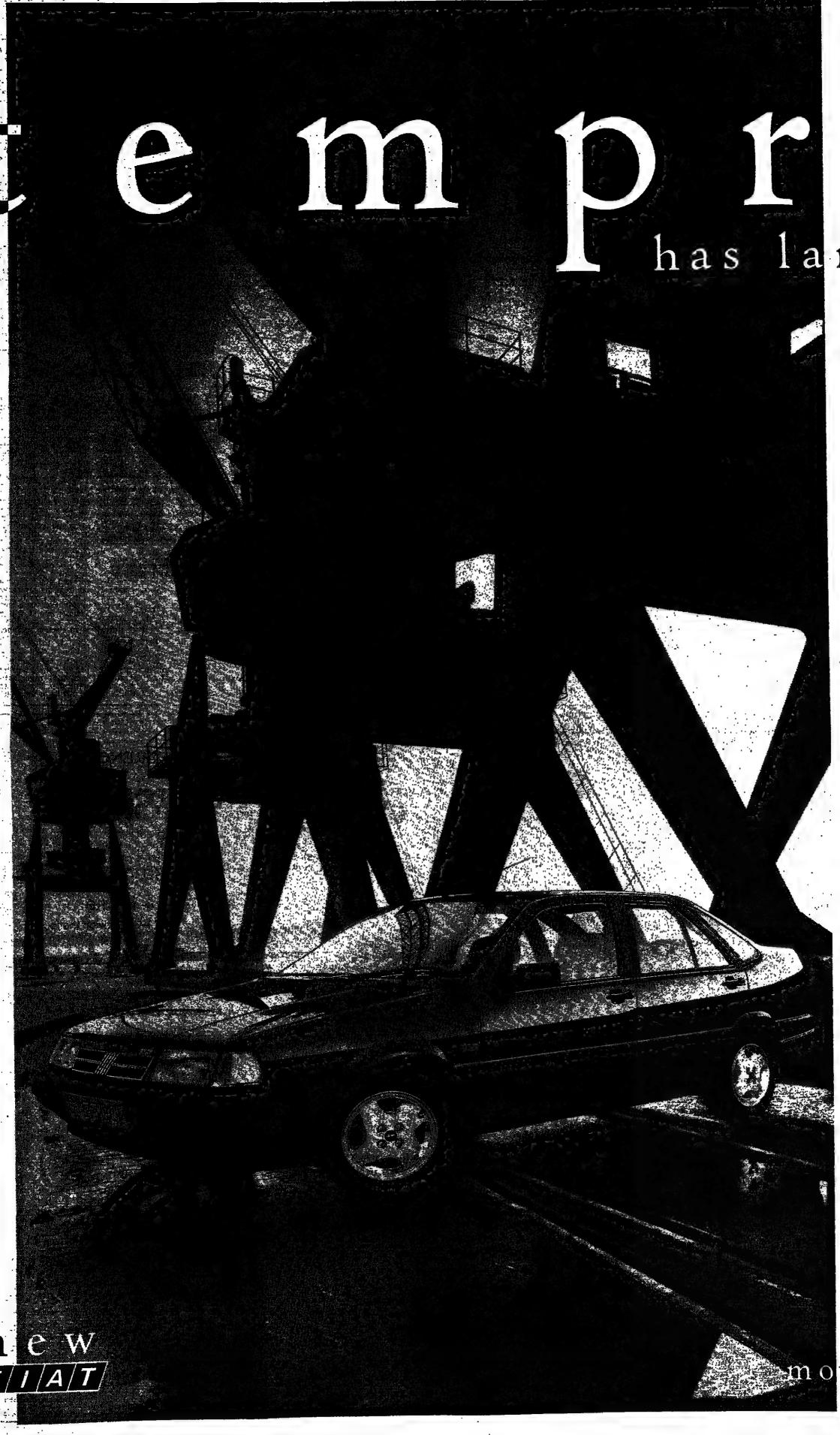
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On almost every front, it could be argued that the factors which have enabled the country to export its way out of troubles induced by ris-ing oil prices in the past are either no longer adequate or are fast dis-

At the same time, the structural weaknesses in the balance of payments, built on large perman deficits on the energy food and chemicals balances, have not been remedied. On the most pessimistic scenario, the result in the future could be worsening balance of pay-ments and some shrinkage of the industrial base

In the next few years, industrial companies will not have the facility they had in the late 1970s to cover their cost increases by frequent devaluations. This luxury began to fade from 1979 when the lira became part of the European Community's Exchange Rate Mechanism, albeit with a 6 per cent marzin of fluctuation. This provided the disciplinary framework which induced labour shedding and the application of new technologies

which in turn restored competitive strength in world markets.
During most of the 1980s incremental productivity gains were sufficient to compensate for relative

cost disadvantages which derived both from a strengthening of the There is little further scope for productivity

gains from manpower

reductions

lira in real terms against both the US dollar and the German mark and also from higher increases in the cost of labour and other inputs, amounting to about 3 per cent a year more than Italy's main Euro-

pean partners.
All industrialists are now agreed. that there is little further scope for productivity gains from manpower reductions. "Unlike at the end of the 1970s we don't have the same

capacity to regain productivity through reorganisation of the facto-ries and better labour practices," said Mr Carlo de Benedetti, the president of Olivetti.

However, according to Mr Stafano Micossi, head of research at Confin-dustria, the industrialists organisation, the costs differential remains and is being exacerbated by the exchange rate. In the past year, the lira has appreciated by 12 per cent in real terms against the dollar and by 20 per cent against the yen.
With the lira's entry into the nar-

row 2.25 per cent band of the Exchange Rate Mechanism and the European Community setting down the path to fixed exchange rates, Italian exporters can expect little or no relief from currency changes. Nor, says Mr Micossi, will incremental improvements in the application of new technologies be suffi-cient to compensate for the 3 per cent differential on costs with Italy's main trading partners.

In the meantime, declining com-

petitivity is manifesting itself in off shore. many ways. Many textile companies are maintaining their export mar-kets at a loss, and this will surely bear on 1990 profits, and Confindustria surveys are revealing similarly painful situations in other sectors.

"It is not imaginable that we can continue like this," says Mr Micossi. His analysis of trade patterns is showing a consistent decline of market share in Germany - Italy's main trading partner - while last year's relatively rosy export figures based on a 10 per cent growth in supplies of goods and services was due more to higher demand from outside Europe for traditional Italian products such as leather goods

According to Confindustria, the competitivity squeeze is now showing up on the trade balance in two ways. One is a significant increase in imports of semi-finished products which reflects a growing trend among small and medium-sized pro-

This is not so much a matter of them making direct investments oversees but of buying product from

low cost centres, increasingly in eastern Europe and Asia. Clothes are now being made for Italian producers in Hungary and Yugoslavia and jewellery in Hong Kong. Domestic shoe production has been steadily falling while exports have increased - because

of offshore manufacturing. If it continues, the effect will be to systematically reduce the industrial base," Mr Micossi says. He believes that January-June L3,000bn improvement in the trade deficit compared to the same period last year is misleading and due exclu-sively to an improvement in the terms of trade.

Measured in volumes, imports grew at a faster rate than exports -5.9 per cent against 5.5 per cent — especially in ferrous metals, chemicals, energy products, engineering products and transport and textiles

Is Italy becoming less competitive?

equipment.
Confronted with what may be a structural problem, what is the government doing?
According to Confindustria, very little apart from making the situation worse. It is awarding exorbi-

The only consolation for exporting is that the future looked as black ten years ago

tant pay rises to its own employees - close to 30 per cent over three years - which stimulate equivalent expectations in the private sector, producing annual budgets which are incapable of reaching their targetted deficits and, therefore, of reducing interest rates, and it has loaded industry with an extra L30,000bm of social security obligations over the past three years.
In the meantime, there has been no discernible improvement in the quality of telecommunications and transport services which industry claims impose real cost penalties on the export effort.

Commission and the contract of 
Confindustria received no significant political support when it sought earlier this year to push the unions towards abandoning the scala mobile wage indexation sys-

tem which covers against around 48 per cent of inflation.

The present government solved the problem by walking away from it, encouraging both sides of industrial than the side of industrial than th try to sit down to address the future of indexation in June of next year.

The only cavest against excessive essimism about the future of Italpessimism about the future of Italian exporting is that the future looked just as black ten years ago.
Granted that the scope for productivity growth through manpower reductions is now a great deal less, the facility which Italian industry has displayed in the 1980s for quickly applying new technology and producing higher value added products for traditional markets has not vanished.

Flexibility and entrepreneuri-

Flexibility and entrepreneuriation still reigns in the private sector. But it does need the help of a great deal more efficient and effective government than is currently on offer, or really foreseeable for the future.

# Sales increase

WHILE ITALIAN exporters of conventional machine-tools have been faced with declining competitivity, the same can not be said for the more sophisticated area of the sector, that

The Italian firms that belong to the latter group are instead likely to soon be third in the world after Japan and Germany," says Mr Gian Carlo Mandelli, president of the Mandelli Group of Piacenza, one of Italy's leading robotics firms with total sales of L160.8hn (up from L142bn in 1988) of which exports represent roughly 50



There has been no decline in the group's competitivity on foreign markets over the past year. Thanks to the company's high-level of investment in research and development, says Mr Mandelli, its products are sophisticated enough that sales to high-technology countries such as Germany have

Rising labour costs are a problem for many Italian companies but Mandelli has an edvantage over many of them. "Given that our systems of flexible automation for the most part have been developed. contain manpower costs, and that we ourselves use our own products, we are less affected by certain problems tied to the cost of Mr Mandelli.

However, the company has had to face pressure from other costs and has been successfully able to avoid raising prices only by significant structural re-organisation. "Compatibly with the changes in the world inflation rate, our prices have thus remained substantially

nnaltered," he adds. According to Mr Mandelli higher prices of raw materials and imported semi-finished products have had little impact on the company. The same goes for the exchange rate, which has affected the company only in the dollar area. One particular problem is that of labour costs regarding white-collar workers and researchers, according to Mr Mandelli. 54-year old chief

"In our sector, in fact, man-power is highly qualified with sizeable gaps between supply and demand. But, I repeat, these are all factors that have been easily absorbed and which have in now way touched our competitive post-

Mandelli increasingly views its clients, domestic and foreign, as part of a single mar-ket. "It is therefore difficult, if not impossible, to specify in which foreign markets we have felt the most competitive pres-

sures," he says.

For the Mandelli group, the outlook is definately rosy.

"Thanks to our policy of concentration and synergies among our companies, some of which have been newly acquired, we are confident that we will be increasing our share of the world market.

However, a more dynamic industrial policy by the lializan government would be appreciated, particularly with regard to support systems and incen-If the business support systems that are available in other countries of the EC were to be introduced, Italian firms would find it much easier to pene-

## High cost to strong lire

THE OVERALL trade balance of the first eight months of 1990 shows that Italy is run-ning a smaller deficit than that projected in the same period rigistered in the same period of last year. In other words, says Mr Angelo Fornasari, Olivetti group vice-president for administration and finance, despite the unfavourable despite the unfavourable exchange rate, Italian exports as a whole have grown faster than imports, probably largely because of a slow-down in domestic demand and the consequent necessity to use pro-

ductive capacity for export However, he points out, the situation is different in the field of electronic information systems. Since their products are geared primarily to highly-industrialised countries, exports in this sector, and thus Olivetti exports, are particularly sensitive to exchange rate fluctuations.

This has been particularly true over the past eight months, during which the lira has been revalued by 11 per cent against the US dollar and by 18 per cent against the Japa-

nese yeu. Inflation, he says is higher in Italy than in most other indus-trialised countries. This means Italian exporters must bear higher local costs and exchange rate effects which, rather than neutralise the dif-ferences between inflation rates, move in the same direc-

These external factors have doubtless represented negative elements in the competitive tives that are currently non-ex- position of Olivetti, which last 9,031bn lire (up from 8,407bn in 1988) and saw exports account for 63 per cent of total revenue.
On the other hand because
of its efforts in increasing
research and efficiency, and in lowering costs, the company has been able to maintain a

"good commercial perfor-mance" abroad.

Cost inflation in Italy has caused some exporters to raise prices. But "where highly competitive products are involved, the pressure of costs cannot be ed on to the prices of highly competitive products."

This is even more true given the fact that countries like the US and Japan, who are benefiting from the favourable exchange rate ratios, can come on to the European market with very competitive priceags. The greatest competitive sure for Olivetti has come.

#### olivetti

highly dollar-sensitive counirles, says Mr Fornasari. This is a result of both the devalua-tion of the dollar and the sig-nificant decline in US domestic demand.

To meet this competition. Olivetti must offer increasingly competitive electronic systems and computers and, at the same time, continue its attempts to reduce internal costs through increased effi-ciency. Like many other Italian companies, Olivetti views the high cost of labour, and its hefty and periodic increases, as a particularly heavy burden. One of the major contribut-ing factors to this cost is the

high level of obligatory social security payments, which amount to about 50 per cent of the total pay packet. "It should also be said," adds Mr Fornasari, "that the Italian system, "that he the country," startled." that is, the country's service network, has not yet reached the desired levels of efficiency, a factor which inevitably causes negative affects on company costs.

"The company's competitive position could be improved by greater sensitivity on the part of Italy's political parties and unions. The modernisation of the public administration, says

Mr Fornasari, would be extremely beneficial.
In addition, all of Italian industry would benefit from a less rigid concept of labour use and a wage policy sensitive to exporters' needs. However, Olivetti is confident that its increasing commitment to increasing commitment to research and its attempts to improve internal efficiency including through personnel reductions - will enable it in coming years to increase its market shares in Italy and in the major countries of Europe.

Sari Gilbert

#### Pressure intensifies

OFFICIALS AT the Flat the company, which sells 40 Mirafiori automobile plant in per cent of its cars abroad, has turin are convinced that the competitive position of stalian higher costs on to the concompetitive position of Ballan exporters is being penalised by the combined action of inflation and the currency exchange rate.

After all, says Mr Gian Paolo Massa, head of Flat Auto's strategic co-ordination depart-ment, when it comes to inflation there is a structural differential of three to four points with respect to west Germany and of one to two points with respect to the European Community average,

At the same time the lim is firmly anchored to the German mark and therefore the exchange rate does not com-pensate for the inflation differential.

Because of this, during the course of 1990, Flat's competi-tive position continued to worsen. "Domestic costs have been growing at a greater speed than those of our com-petitors," says Mr Massa. Fiat Auto, which last year regis-tered total sales of 22,888m line. (over L20,263bn in 1988), is trying to further improve its posi-tion in Europe.

"But there is no doubt that on the marketing front there has been a general intensifica-tion of competitive pressure through a price war that is still in progress." For this reason,

"An out-ent-out transfer of the added costs would have led us, in Italy and abroad, to lose competitivity vis-s-vis our com-petitors, who are subject to less cost pressure," Mr Massa

Fiat attributes the worsening state of its competitive position primarily to domestic factors, in particular to the high labour costs and to the helty social security contributions that the state collects from business

#### FIAT

exiterorises. On the external side, the exchange rate, and in particu-lar the over-valuation of the hire, continues to have a negative effect. And there is concern that the rise in price of for oil and oil derivatives could have as yet unquantified con-

sequences for the sensitive automobile sector. Today, all European car makers consider the European market as a single domestic market, says Mr Massa, and consequently are stepping up

ing range.
The result is that all Euro-

pean markets are under extreme pressure and it is increasingly difficult to achieve or maintain a position of clear supremacy, such as that which most car makers still hold in their home coun-

What factors could help to improve Flat's competitive position during the next 12 months? Fiat would be happy to see a devaluation of the liva, which would recover at least a part of the losses of the past two years and thus improve the position of Italian export-

But the giant car maker, whose principle objective is that of improving its position on foreign markets, would also like to see an alignment of the lialian system of price formation with the rest of the EC. The company, which recently put thousands of workers on temporary short-

workers on temporary short-time to reduce its stocks, is trying to cope with the situa-tion by immoving internal effi-ciency and productivity. But, says Mr Massa, "It is primarily cost pressures on the labour front which the labour front which the services the less further much transitions. further push towards the loss of competitivity".

Sarl Gilbert

#### TOURISM

# **Export earner suffers**

IS ITALY about to lose its number-one standing as the world's most popular travel destination? After a near-disastrous 1989 and a highly disappointing summer, this is becoming a serious concern, not just for tourist operators but for economic planners long accustomed to relying on the sector as an important export sector as an important export earner and the principle invisi-bles item in the balance of pay-

An ongoing decline in the tourism account's net "surpins" – the difference between foreign currency earnings from tourism in Italy and foreign exchange expenditures by Italians for travel abroad – could create balance of payments difficulties.

Over the past five years that surplus has declined drasti-cally, from over 12,000bn lire in

Recent statistics indicate 1990 will not be a good year

1985 to 7,151bn in 1989. The reasons? An increasing number of Italians have been travelling abroad, and spending more when they do so. Competition from other Mediterranean countries has been increasing. And, observers agree, the gov-ernment has failed repeatedly to come up with either a genuine strategy for expansion or an effective system of market-

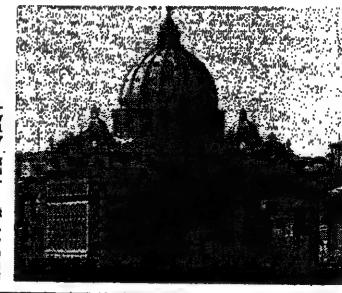
According to Mr Francesco Colucci, president of Confcommercio confederation: "The rationalisation and modernisation of the national tourism system requires a drastic turnabout in the government's attitude".

Total revenues of the Italian tourism industry amount to some L80,000bn a year, the equivalent of over 5 per cent of GDP. But the past three years have seen a sharp drop in for-

eign exchange earnings.
Recent matieties indicate that 1990 will not be a good year either. According to figtres compiled by the Federa-tion of Italian Hoteliers (FAIAT), between January and August the occupancy of Italy's 38,000 hotels increased by only 16 per cent company by only 1.6 per cent compared to the same period of the previçus yest.

For many tourism operators in Italy the world soccer chamtrend. The portion of the population travelling shroad grew by 65 per cent between 1981 and 1985 and is increasing by over 10 per cent a year.
All this has meant a growing cash outflow. In 1989 Italians spent L9,291bn abroad, com-pared to L4,338bn in 1986.

> St Peter's, Rome: tourist revenues have dropped sharply over the past three years while Italians are spending more money travelling abroad



#### **ENGINEERING AND CONSTRUCTION** OF PLANTS WORLDWIDE

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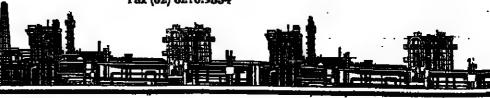
Infrastructures

 Environmental Engineering and Effluents Treatment

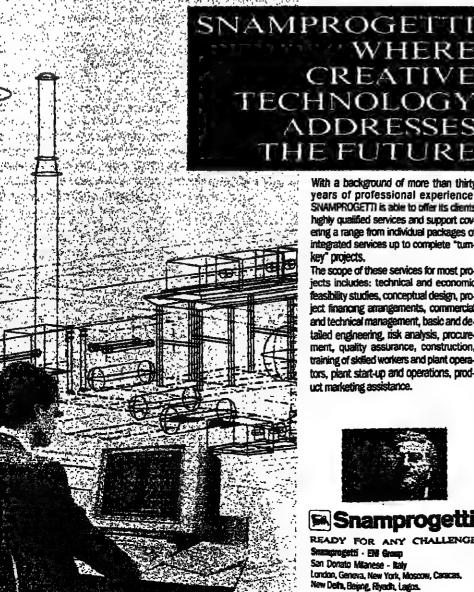
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# pionships represented a particularly sharp disappointment. hotel bookings in that period

increased by only 0.1 per cent.
Figures for the rest of the
summer only added to the
gloom. In July and August the
number of foreign visitors
dropped sharply, respectively by 7.8 and 14.2 per cent. West Germans (the biggest single group of Italy-lovers), Belgians and Britons were the principal

and Japanese were the only groups increasing in number. The general consensus is that foreign tourists stayed away from Italy during the world cup tournament because of fears of overcrowding, chaos and possible hooliganism. But why the severe drop in July and August? High prices

But Americans, Canadians

have served as a deterrent for many, drawn instead to the and packages in neighbouring Spain and Portugal, Greece, Yugoslavia and, increasingly Turkey.

And the service in many har-

ury hotels is often out of sync with prices; about \$300 a night for a single room. Although labour seitation in the transport sector has eased considerably in the past year or so, many veteran travellers: remain wary of strikes.

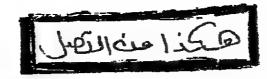
Museum hours rarely seem in tune with tourist schedules.

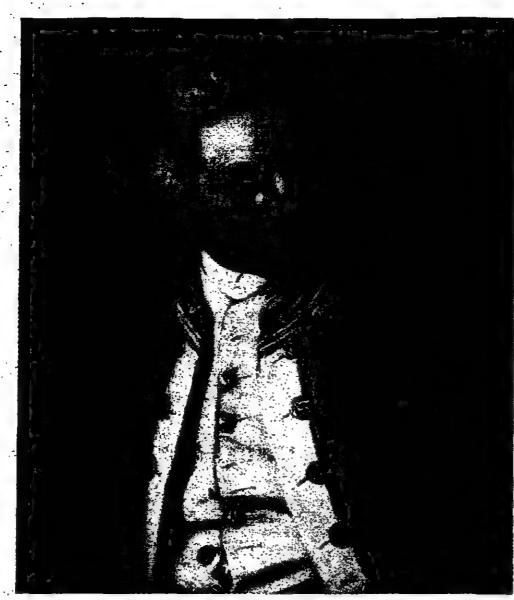
Restaurants are expensive. And pollution has increased greatly in the country's main cities. A recent survey of 16 cities by the British Tourist Authority concluded that a holiday in Rome was more expensive than in any other European capital except for

Copenhagen. Italy's 38,000 hoteliers say government inaction is a major cause of the highly-fragmented, still largely family-run industry's inability to compete (in terms of services and price) with rivals in the "emerging Mediterranean countries; they cite controlled prices, high labour costs, the heavy value-added tax system, tight credit and insufficient incentives for construction as impor-

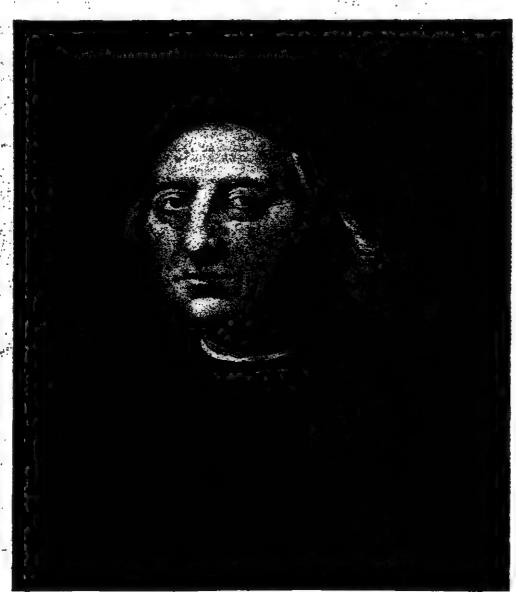
tant government failings.
Another problem is that once stay-at-home Italians have become increasingly eager to travel abroad and the Italian outbound market today is considered one of the fastest

growing in Europe. The strong lira and a weak dollar has intensified the





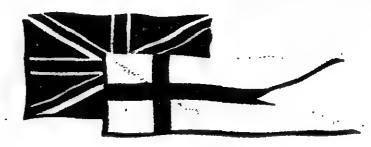
CAPTAIN COOK
HAS ACCEPTED THE INVITATION.



TRECTO

CHRISTOPHER COLUMBUS WILL BE WAITING FOR HIM IN GENOA IN 1992.

# SPECIALIZED INTERNATIONAL EXHIBITIONAL "CHRISTOPHER COLUMBUS: SHIPS AND THE SEA"



Christopher Columbus, a Genoese, discovered the New World in 1492. At the time it represented a profound expansion of human knowledge. Made possible by a combination of iron will-power and thinking years ahead of its time. Five hundred years later, in 1992, to mark the fifth centenary of his triumph, a Specialized International Exhibition is to be mounted. Entitled "Christopher Columbus: Ships and the Sea". And, appropriately enough, it is to be held in Genoa. As the great maritime civilizations meet to celebrate and illustrate the story of seafaring. And to look forward to the future. Exploring the latest ideas, projects and technology. Among the participating countries is Great Britain. A nation so rich in marine tradition and culture could not possibly afford to miss out. The site for the exhibition will be Genoa's Old Harbour. A recreation of the unique structures of the ancient port. Designed by architect Renzo Piano and developed by the Iri Group Company Italimpianti the project will rebuild the "heart" of the town. Bringing Genoa closer to the roots of its ancient civilisation. In addition the whole complex will serve, after the exhibition, as an important multifunction centre for the town. 1992, therefore, is an important date for all the seafaring nations of the world. One they cannot afford to miss. As they meet on the threshold of the next millennium to forge a new bond between man



COLUMBUS 1992: THE PROTAGONISTS OF THE SEA MEET IN GENOA.

Italy trails behind the rest of Europe in the privatisation process

# The flame flickers dimly

DESPITE THE potential revenues which could make a helpful contribution to cutting Italy's mountain of public debt, despite growing pressures from the European Commission to curb current levels of industrial subsidies and despite the inadequacy of so many public services, the flame of privatisation flickers even more dimly in Italy than it did just two YEARS BEO.

The reasons are more varied than is often supposed, but the most important ones derive from the reluctance of the Italian political class to surrender significant controls over sec-

Informal barriers can be erected through the public administration

tors which accounts for something like a third of economic thing like a third of economic activity in Italy. More pre-cisely, the public holding com-panies, whose political master is the Ministry of State Share-holdings, are vital adjuncts to the powers of political parties. They are sources of finance, services and employment for the dominant regime of Christian Democrats, Socialists,

Republicans, Social Democrats and Liberals who have popu-lated Italian governments for the past 40 years. The public sector credit institutions, which control more than 60 per cent of all deposits, provide money for politically inspired public works of dubious or non-existent economic value. They tent economic value. They fund private sector projects carrying a suitable political sponsorship and they provide money for a variety of party activities, including the extraordinary number of conferences which erupt in Italy on most days of the week

on most days of the week. The banks will also, it seems, reward friends and punish enemies. Or so Mr Raul Gardini, the president of Farruxi, is letting it be known. He claims recent decision to severe claims recent decision to sever all business links with Banca Commerciale Italiana, hitherto regarded as one of the institutions less in thrall to the politicians, was prompted by the

conclusion that BCI was taking

sides against him in his battle with ENI, the state holding company, for control of their chemicals joint venture, Eni-

Italy is not the only country in Europe where the parties, through their placemen, reach deep down into the economy. But there may be no other country where the phenomenon is so widespread and so frequently a threat to the public interest. Although some party nominees to senior management positions in the public sector are professional and honest, they are allowed to operate as protected species in a host of sectors where the public monopoly enjoys public

protection Telecommunications services, air and rail transport and energy supply are three high profile sectors where legal harriers to entry prevent the development of any significant competition from the private sector. There are many others where informed harriers are where informal barriers are erected through the public administration or local regula-tions which achieve the same result. In the absence of market pressure to compete, there is only partial and inadequate

public pressure to do so.

The capital injections from
the State into the public holding companies — the so-called
fondi di dotazione — are not
supplied at anything approaching market rates. However, budget pressures have signifi-cantly reduced the fondi di datazione cover of public com-panies' investment from 71 per cent in 1983 to 10 per cent last year. This has helped to worse the mile between their debt and their share capital to nearly 220 per cent in 1988 compared to 89.9 per cent aver-

Another explanation for the worsening of financial ratios in the public sector is the government's reluctance to allow price increases for public ser-vices. Although the railways are now set for increases of up to 30 per cent over the next year, airlines, telecommunica-tions and motorways have had

age for the private sector.

applications for price increases in the pipeline for years. If the provision of infrastructimal services was not so manifeetly inferior to western european averages, the public

might be lulled into believing that price stability was an indicator of growing efficiency.

The search for capital has forced the public holdings to seek private funds through the sale of minority shareholdings Between 1982 and 1988, IRI through stockmarket offerings, but little more than 20 per cent of this derived from full privatiestions.

The unwritten political rule which has emerged in the past year or so forbids the cession of majority control of any busi-ness of industrial significance or financial size. One reason

In the short term, it now seems highly unlikely policy will change

why the Enimont saga has become a prominent political cause is the general consternation caused in Rome when it was discovered that Mr Gardi-ni's Montedison could win management control on the basis of the same 40 per cent stake that was held by ENL It did so by forging an alli-ance with sufficient third party shareholders to give Montedi-son control of a bare majority

of the stock It is still too early to as the broader significance of the Enimont case. The governit is prepared to allow the full privatisation of the joint ven-ture if Mr Gardini will pay EMI's asking price for its hold-ing. In fact, it may have attached such conditions including observance of a business plan agreed in 1988 which Mr Gardini believes to have been overtaken by events - as to push the Ferruszi president

Alternatively, there are those that believe Mr Gardini is trying to provoke such an outcome because he wants to sell his stake to ENL

However it unravels, the Enimont story has become an appalling advertisement for blic private collaboration in Italy when the sector invoives sensitive issues of investment and employment. Opinions vary about the true basis of the

conflict, but there seems little doubt that an important factor was Montedison's desire to run faster in restructuring the business and on closing out of date plant than its public partner was ready to contemplate. In short, political resistance to creating unemployment was clashing irreconcilably with more entrepreneurial judgements of the requirements of

In the short term, it now eems highly unlikely that there will be any change of pol-icy on privatisation in Italy. once there was sor ressure in this direction from the top of IRI and ENI when the two professors, Prodi and Reviglio were in charge, their successors show no signs of wanting to confront their politcal masters.

The ever worsening budget deficit is the only element which could cause a change of political heart. The minority of leading politicians – Mr Nino Andreatta, the Christian Democrat chairman of the Se budget committee, Mr Adolfo Battaglia, the Republican minister for industry and his party leader Mr Glorgio La Malfa — who favour privatisation have been trying to make the most of this, but to little avail

Mr Guido Carli, the DC treasury minister, the leading dvocate of privatisation inside the government, included proposals to sell off some state property in his 1990 budget proposal, but these were stripped out in parliament and made into a separate hill which is now trapped deep in the procedural quagmire.

External pressures may be Commission could make the mainimumou of the state sector more difficult by building a tighter ring fence around pub-lic subsidies. Finally, Italy has just equipped itself with an anti-trust law whose provisions on concentration and abuse of dominant market position also

apply to public companies. But its potential effective-ness has been at least halved by a clause which specifically excludes its application to public monopolies required by law to provide services "of general economic interest".



price setting."
His list of inadequacies also

PROFILE: FINMECCANICA

# Simple structure dominates

IRI, ITALY'S GIANT state holding company with annual sales of L56,000bn and hundreds of subsidiary companies, acement nightmare.

However, since its launch in the early 1930's as a lifeboat for Italian companies and banks which were sunk by the great depression, it has evolved a relatively simple structure based on sub-holdings which act as its management agent for groups of subsidiary compa-

Finneccanica is one of the most interesting of IRI's holding companies because its relatively small number of 31 main subsidiaries have expanded rapidly on the international scene during the past few years with the aim of establishing the company as the IRI flagship for a range of advanced technologies.

With its headquarters on a hill above the Tiber 20 minutes to the north of Rome city centre. Finmeccanica is the parent company to Aeritalia, Îtaly's main aerospace manufacturer, Ansaldo, which makes heavy electrical engineering and transport equipment, Selenia and Elsag, Italy's leaders in defence electronics, and ST, the microprocessing manufacturing joint venture between SGB of Italy and Thomson of ETUDOS.

About 34 per cent of Finnec-canica's 1990 revenues of \$8.5bn come from aerospace, 14 per cent from defence electronics, 22 per cent from energy and the environment, 13 per cent from industrial systems and automation, 7 per cent from transportation and 7 per cent from the manufacturing of micro-electronics

With its staff of 200 and annual turnover in 1990 of \$8.5hm. Finmeccanica is organsed in such a way as to provide a range of services to its companies and to monitor and control them. In some cases, these centralised services over-lap with those that the subsid-

WHEN FINMECCANICA SOL

Alfa Romeo to Flat at the end of 1986, the relieved group shed

The task would require a steady process of international-isation to acquire markets and

technology, some public sector reshuffling so as to create what the Italians call industrial "poles" under the Finneccan-ica umbrella, careful co-ordina-

tion to remove overlapping research and development activities and rather a lot of

Four years on, Finmeccanica

has made considerable prog-reas, although it has hit some deep potholes along the way and its financial performance

and us minarcal performance would not be regarded as acceptable by shareholders of a publicly quoted company. Consolidated sales have

more than doubled in three

years to an estimated \$8.5bn in 1990 while profits have risen from \$60m to \$78m in the same

period. Five years 250, only 2 per cent of its employees were based outside Italy, now 15 per

cent are, and 20 per cent of sales come from foreign subsid-

But problems have hit the strategy from several direc-tions. While it managed to acquire Selenia, shortly to be

merged with Aeritalia, from

the STET holding company, a

parallel requirement to take hold of Italtel, so placing Ital-

ian telecommunications along-

side advanced electronics, will

receive no political blessing for

frustrated the idea of moving Breda Ferroviaria out of EFIM

the smallest state industrial

holding, into a merger with

Ansaldo's transport activities. Fiat's recent deal with CGE of France dealt a further blow

to hopes of building a railway

Flat Ferroviaria, which until the politicians vetoed it ed likely to be swapped for the Finmeccanica's Alfa

the time being, if ever. Political opposition has also Director General

bly and without excessive duplication of the effort

Managerial

structure of

Finmeccanica:

The financial function at the centre involves corporate finance and administering financial cash flows of around \$2bn a year.

Finmeccanica also offers customer financing services for aircraft and other large pur-chases. The chief managerial role in the company belongs to managing director, Mr Fabiano Fabiani. Mr Fabiani is appointed by IRI and whose previous experience includes journalism and a spell as a manager at the RAI national

television corporation. Finmeccanica's responsibility to IRI is to implement a rolling annual corporate plan which is jointly agreed between them. IRI's expectations are set out in an annual letter and, says Finmeccanica, are more "qualitative than quantitative".

Finmercanics translates the IRI objectives into detailed directions for its companies which respond with individual corporate plans. These, in turn, are consolidated into a Finneccanica plan which goes back to

The group plan sets detailed objectives covering market shares for the various businesses, financial ratios and capital requirements. Finmeo-canica says financial targets are as rigorous as those of any private company and, in recent years, individual financial per-formances have been broadly in line with comparable private suctor instress "However, we do more in house than the domestic com-

petition, we are more verticalised, so we have lower sales per employee," says the com-Formally, there are clear rules which determine the free-

dom of action excercised by Finneccanica. It is able to buy or sell minority stakes in com-panies without prior approval but acquisitions and divest-ments have to be approved by IRI and the Ministry for State Shareholdings.
This process is not always

cumbersome or time consum-ing. In the case of the sale of Alfa Romeo to Flat at the end of 1986 everything was done in the space of 26 hours during which the Finmeccanics, IRI and Alfa boards all met and formally communicated their ing. The minister of state ing. The minister of state shareholdings wrote to the appropriate interministerial committee of ministers which then met in order to give a formal directive to IRI which was then passed on to Finmac-

But Finmeccanica concedes that it has less flexibility than a private company. "If there is CODERURDS MA CON MOAS quickly. But we have a public owner and the state does not behave like a private share-holder by just turning up at an annual meeting once a year." This is something of a mas-terly understatement given the political interference which complicates the management

of public sector companies. It is particularly true when it comes to privatisation and the reshuffling of assets between the three main public groups, IRI, ENI and EFIM.

Alfa Romeo has been the only significant Italian privati-sation of recent years and was more a product of a desperate realisation that the company's losses could only be stemmed if it became part of a larger automotive group. Elsewhere Finmeccanica's

development strategies have undoubtedly been disrupted by the difficulty it has had in win-

ning political approval
At an informal level contacts
between managers at Finmeccanica and IRI are intense and frequently daily. Those between Finmeccanica and the management of its subsidieries are even more intense.

"We do exercise closer con-trol over them than IRI does over us. We go deeply into a company's affairs, are con-stantly involved in questions of mergers and acquisitions and we do the medium tarm financial planning for our com-

Arguing that "we live in dynamic times", Finmeccanica says that the almost daily contacts it has with top managers in subsidiary companies are necessary to guarantee flexibil-ity and responsiveness. "We believe we give them value for money and there are no complaints of excessive interfer-

John Wyles

#### PROFILE: FRANCO PIGA

## A symbolic choice

MR FRANCO PIGA's appointment as minister for state shareholdings in July was one of the symbolic choices for which prime minis ter Giulio Andreotti has

After a long career spent heading the cabinets of a number of Christian Democrat mitisters, Mr Piga became president in 1984 of the CONSOB, Italy's stock exchange regula-tory authority. He is thus an expert on the mechanics of Italian capitalism with an unusual technical grasp of the potential for privatisation in the Italian economy. But he is also, now, a politi-

clan with public views on the issue that cleave closely to the

prevailing consensus among the political parties. He does not acknowledge the existence of any political obsta-cles to the sale of state assets.

Indeed he asserts that "in recent times there seems to me to be a clearer will to proceed more decisively with a privati-sation process". He has in mind the cautions floating of stakes in the public banks, the government's own proposals to sell some state property and draft laws presented in parliament by political parties "which are distant from the traditions of the market".

The obstacles to privatisa-tion, says Mr Piga, are more technical. He sees in both the public and private sectors a

traditional reluctance among Italian entrepreneurs to expand their shareholding bases. But equally important is the backwardness of the Italian stock market. "This is lacking in intermediation structures, techniques for the making of contracts, and mechanisms for

includes lack of financial products, thin and therefore unrepresentative trading, insider trading and other manipulations, and lack of proper pro-tections for minority shareholders. He believes key reforms still await the passage of parliamentary legislation. He also regards investor preferences as a problem, say-



ing that savers clearly prefer to put their money in the huge supply of government hotes and bonds issued every year to finance the budget deficit because of the attractive interest rates which are available.

Mr Piga does, however, want to see the development of a coherent privatisation policy. It should begin, he says, "by clearly identifying in general terms which activities the state has an interest in main-

taining its presence."

In the cases of share flotations, it must be clear that the market is able to absorb a heavy supply of shares. In a possible reference to the Eni-mont disaster, where ENI (public) and Montedison (private) have failed to cohabit in a publicly quoted joint venture, he asserts that assets sales "without clear procedural rules" can lead to conflict.

He says that public compa nies which have floated minor ity stakes on the stock exchange are now generally yielding up to or above the market average, having failed to do so until about two years ago. Nevertheless, their Price/Earnings ratios remain below the market average, suggesting that even on equal terms "the market puts a lower value on companies with state share-holdings".

Turning to which sectors might be appropriate for priva-tisation, Mr Piga gives prece-dence to property either owned by the military or by com-munes and to possible joint ventures with the private sector which would control some of the cultural and artistic

stock owned by the state. He also believes that the state should maintain its pres-ence in high technology sectors, services and infrastructures. available in large industrial groups". suggesting the state requires these groups to fulfil its mission in the south of Italy which needs technology to develop telecommunications, roads, water supplies and natural gas distribu-

Avvio air engine subsidiary, has now been lost to the Turin company's French partner. Mr Fabiano Fabiani, Finmec-

The drive to internationalise

a most unhappy role which had dogged its existence for canica's managing director, admits that the whole railway the previous ten years. Sus-taining a not too brilliantly managed car company which manufacturing strategy is back on the drawing board, although collaboration with was too large to be a niche mass producer had been a tretrain design is proceeding.
The Fiat-CGE deal has not, mendous burden on the holdhowever, put paid to the possi-bility of Finmeccanica acquir-ing Flat's gas turbine manufacing company's finances and nanagerial time, Without Alfa

Romeo, however, what was turing activities. Mr Cesare Romiti, Fiat's managing direc-tor, said recently that the two IRI, then presided over by Professor Romano Prodi, had no problem in providing the solution. Aeritalia, Ansaldo sides disagreed over price and it seems that if there is to be a and SGB were core assets deal, it has to be struck by the which shared common charac-teristics: they employed end of this month. advanced technology in mar-lets of a worldwide dimension in which the competitors were

If not, Ansaldo will acquire a manufacturing license which will enable it to go into production on its own next year.

Ansaldo has been Finmec-

few and large and highly comcanica's problem company ever since a national referendum Finmeccanica's strategic knocked the bottom out of its its companies, and Italian national capacities, by pushing them further and further into advanced technologies. non-nuclear option in 1987. Gas

inthines are seen at an exem-tial replacement, not least if Ansaldo is to be part of the agreement Italy has made to buy electricity from the Soviet Union to be paid for through the construction of 16 gas turbine power stations.

But the Gulf crisis has only blocking, perhaps for many years, faililment of power sta-tion contracts with iraq worth L1,000bn, about one fifth of its In other sectors, the sailing

has been rather plainer. Hav-ing laid out around \$2bn over the past five years on some 21 acquisitions, including Ferranti Italia, Inmos in the UK, Bailey Controls and Wabco Westinghouse in the US, Fin-meccanica has acquired a range of complementary advanced technologies and is deriving around 40 per cent of its sales from segments in which it is among the three or four largest operators in the

The process of international collaboration has been carried

microprocessing joint venture between SGB and Thomson of France was an early initiative in 1987 while Aeritalia has developed a large number of production supply agreements with most of the important US and European aerospace manu-

In the meantime, the fusion with Selenia is intended to produce a new force, Alenia, which, says Mr Fabiani, will lead to a rationalisation of research and development activities and a stronger commercial thrust from both its

component parts. The Pinmaceunica chief forecasts that in five years time, Alenia's basic strengths will be built on space technology, air traffic control systems, in which Selenia is already a world leader, and commuter aircraft production alongside the ATR 42 passenger aircraft which Aeritalia is manufacturing with Aerospatiale of

# We have wide horizons

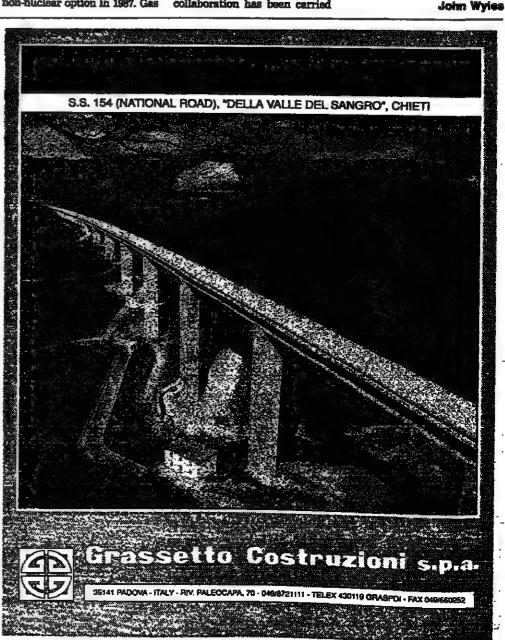
Banco di Sicilia is heir to a banking tradition which goes back to 1459 and has developed into a diversified group offering a comprehensive range of

banking and financial services. The Bank has a domestic network of over 350 branches and a foreign net-. work comprising seven branches (Frankfurt, London, Los Angeles, Lyon, Munich, New York, Paris) a wholly owned subsidiary (Banco di Sicilia International S.A., Luxembourg) and representative offices in Brussels, Budapest, Chicago, Singapore.

Additionally Banco di Sicilia has a diversified group of subsidiaries and affiliates among which the following are specifically active in international operations: Basinvest S.p.A.-Milan, Estero Imprese s.r.l.-Milan, Euramerica Finanziaria Internazionale S.p.A.-Rome, Centro Internationale Handelsbank AG-Wien, Bank of Valletta-Maita.



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#### ITALIAN INDUSTRY 7

#### IN 1990, 20.5 million inhabitants live in the Mezzo-giorno (36 per cent of the Italian population), more than in Greece and Portugal together. Their average income per head in 1989 was almost 30 per cent below the European average of 12 per cent. In northern Italy average income was 24 per cent above the European average, 10 per cent higher than in the Federal Republic and 15 per cent higher than in France. However, the problem of the

Mezzogiorno is no longer one of poverty or under-consump-tion aince consumption levels, raised by transfers, are similar to those of an already afficent society. Average consumption per head in the 1980s was 15 per cent to 20 per cent higher than total internal output; highlighting the problem of lack of marketable products, high levels of unemployment and a backward social and political structure. All of these inhibit the growth of a market

economy. In this respect, economic development in Mezzogiorno regions is a long-term issue, with deep-seated political con-

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notations.
Until now, public expenditure has been a panacea which has made the careers of a great many Italian local and national politicians. Their efforts to secure financial transfers to the Mezzogiorno through aid and public expenditure have ture has been a panacea which

tering the needed social and economic transformation. Large national firms, private

rarely been accompanied by the slightest intention of fos-

and public, have benefitted greatly from this flow of funds, through grants, subsidies or income from the supply of goods or services, with limited beneficial effects on the region. Industrial employment in the Mezzogiorno stili amounts to only around 20 per cent of total employment, and has not increased since the mid-1970s. In a more or less closed economy, the Mezzogiorno was an easy captive market for firms located elsewhere in Italy. The question now is whether the single market will perpetuate this role for the Mezzogiorno. Trade unions have succeeded

in winning equal wage levels in southern industry since the 1950s, although industrial productivity was and still is well below the level in the north (20 per cent below in 1990). As a result, labour costs per unit of production in the south are on the whole no lower than those in the north, offering therefore no cost advantage to

investors.

More recently, unions have strongly backed large wage increases for the public sector employees, who account for over 20 per cent of total employment in the south. Pub-lic administration impedes pro-ductivity growth and has an

#### THE SOUTH

# **Growth is inhibited**

As a result, the blocco agra-rio (agricultural bloc) - large and medium sized landowners, historically considered responsible for the backwardness of the mainly agrarian south in the first part of this century has been replaced by an even more diffuse core of vested interests, linked to public expenditure and to the maintenance of the status quo - violently against industrialisation and private enterprise - and represented by those who administer public money and the others who are supported

A recent study carried out by ISMERI into the public sec-tor impact on disposable income of families in the south found that the average share of salaries from public adminis-trations and social transfers added up to 38 per cent of their total income as opposed to 28 per cent in the north. Overall public expenditure (of central and local governments, including investment of state-owned

unchallenged record of ineffi-clency and mismanagement of the resources transferred to the south. corporations) amounted to over 50 per cent of the Mezzogiorno gross domestic product during the 1980s and increased to 60 per cent in 1987. To complete this gloomy pic-

ture, this flow of public money into areas with backward social and political structures and very high unemployment has nourished corruption and

Professor Enrico Wolleb examines problems faced by the Mezzogiorno

criminality to such an extent that Sicily, Campania and Cal-abria are regarded as being ruled by the Mafia, Camorra and Ndrangheta, rather than by the state.

The contrast is striking between the social deterioration in the south and the indis-putable successes of the Italian economy in the postwar period and especially in the 1980s. The highly positive response of companies to the structural problems which they face in

Growing numbers of banks compete for a slice of the action

the north since the late 1960s, though strongly supported by public aid of various forms, made this region, one of the wealthiest and most dynamic areas of western Europe.

The private sector's strategy of decentralisation and subsequently of expansion did not encompass the Mezzogiorno as a possible location. Public policy towards the Mezzogiorno policy was relegated to the political ghetto of intervento struordinorio (special interven-tion) and did not relate to, nor influence, policies in the rest of the country.

The Mezzogiorno has become a service economy while, para-doxically, the level of public services and infrastructure remains low. Social and wage expectations, however, are such as to require the state is expected to provide well paid

These patent contradictions lead to the conclusion that any explanation of the north-south divide cannot be based solely on economic grounds and that the failure of industrialisation stems, to a large extent, from a lack of political consensus and a lack of determination.

Reform has to be directed at involving local administrators, employers and employees in a concerted effort. The flow of

public money needs to be limited, justified in terms of objectives and made more transpar ent to the taxpayer. Capital grants and all measures involv-ing administrative discretion should be abolished and automatic tax and social contribu-tion concessions limited solely to the south.

Transfers such as artificial

salaries for non-existent jobs. false pensions and financial support for uncompetitive firms and co-operatives or for specific social pressure groups in agriculture as well as in industry – should be replaced by unemployment benefits paid as a right rather than as a

personal favour.
Public firms should not be given unjustifiable priority in awarding public contracts, which results in small private firms being squeezed out. Resistance to change is, how-

ever, enormous. Those politi-cians who understand the political and administrative nature of the blockage, assert that only a radical change of the electoral system with a parallel change in the ruling parties and their personnel, can ultimately change the forms of political consensus and the methods of public

This brings us to the root of the problem: institutional reform is a necessary condition for seriously tackling those aspects of social underdevelopment which impede economic

development However, there is a widespread suspicion that the political debate about reform hides a lack of ability to respond to problems here and now, or is a smokescreen to conceal the real unwillingness to change systems and methods which have assured 45 years of power for the same parties.

Things may, however, improve as a result of growing grass roots pressure for change. Economic and social reforms in the postwar period in Italy have always been pre-ceded by strong social movements, as in the case of divorce, abortion and the creation of the welfare system. At the same time European eco-nomic and monetary unification may put an end to the Italian practice of running huge budget deficits putting an external constraint on public expenditure which would restrict the freedom of action of a discredited ruling class in the south and force the whole country to think seriously about Italian economic unific tion as well as European

union.
A Sicilian by birth, Professor Wolleb is a consultant at Ismeri Europa, Rome.



the south is a long-term issue, with deep-seated political connotations

criteration, then its would be smiling tory of specialist finance advisers now active in Italy has swollen markedly in recent months.

Whether the growing band of merchant bankers, both Italian and foreign, have yet encound the demand expected on. With many of second accounts as built up the small two to four man teams which have become having found premises and man teams which have become typical, the focus is on results.

In the past 18 months alone Warburgs, Rothschilds, Barward Schroders of the UK ings and Schroders of the UK have formally established Italian operations. Credit Suisse, First Boston and Union Bank of Switzerland are planning to open Milan offices, while Merill

Lynch may also step up its lial-ism investment banking busi-Their names will join those Their names wal join thouses such as Morgan Stanley and the hig four Japanese broking houses which are afready well-established in Italy. Meanwhile, Deutsche Bank is boosting its corporate finance activities through Banca d'America a d'Italia and a number of big French banks are also becoming more active.

Banexi, the specialist merg-ers and acquisitions operation owned by Banque Nationale de Paris, set up its new Milan office in earlier this year. And last month Credit Lyonnais's Clinvest investment subsidiary made its debut in the Italian market by taking a minority stake in a local company.

Some other houses are less conspicuous, but nonetheless active, in Italy. Shunning local offices, Goldman Sachs and Wasserstein Perella have hired Mr Romano Prodi and Mr Franco Reviglio, two heavy-weight former state industry heads, as their respective Ital-ian advisers. There is also no lack of

domestic participants. Sampa-olo Finance, Sopaf, Akros and Sviluppo are some of the new Italian merchant banks set up after the country's investment banking business was liberalised in the mid-1990s.
All are touting for much the

Newcomers fill the market ers, but what is there for them

to do? At the moment, not as much as they would like.

Admittedly, not all the banks share the same priorities. Some bigger houses, and especially those which are prominent in the Euromarkets, are still probably concentrating on services for the country's biggest companies — notably in the public sector. Those not planning \$100m bond issues, multicurrency swaps or mega-acquisitions

need not apply.

Others, including some of the UK marchant banks, Japanese brokers and possibly Morgan Stanley, are also seeking a more active role on the stock exchange. Already active in trading Italian shares at home, they are now looking for access to the Milan floor. Leading an

Italian company in the home market would be their crowning ambition.

At present, any such aim is still stymied by the small's pace of stockmarket reform in Italy. But the central plank of the long-awaited legislation, creating the framework for a new type of multi-purpose broking

Domestic banks are touting for the same business as foreigners

house, called a Societa di Inter-mediazione Mobiliare, may pass through parliament before the end of the year. In the meantime, many merchant banks, irrespective of their size, are concentrating on strictly corporate finance work such as company advice and valuations, while striving to win M&A mandates. With much of Italian industry still fragmented by Ruropean standards, and many companies domestically orientated, for-eign bankers claim they have

an edge in M&A. Italian companies need to expand abroad, making the contacts and know-how of a foreign bank particularly useful, they claim. And, with many big north European com-panies facing mature markets and limited growth potential, foreign interest in Italian acquisitions is also growing

strongly.

Italian houses do not question the analysis, but they do put a different gloss on the atvisory skills required. Thus the domestic operators tend to emphasise the importance of their local know-how in response to the foreigners' claim to have the advantage in

cross-border business.

Both groups have had ample opportunity to fiex their mus-cles this year. In July, Barings clinched the L80bn sale of Ceramica Dolomite, the bathroom sanitary ware manufacturer, to Blue Circle, the UK cement group. Some months earlier, Schroders was behind the sale of a 65 per cent stake in Can-tieri Riva, the luxury powerboat maker, to Vickers.

boat maker, to Vickers.
Other banks have mined a
rich vein in advisory services
— notably valuations. Goldman Sachs and Morgan Stanley — along with Wertheim
Schroder in New York —
advised Eni and Montedison
respectively in the Enimont respectively in the Enimont joint venture. They may now

stand to double their money by providing the same functions in Enimont's divorce.

Meanwhile, Milan's new merchant bankers are hoping for new business from smaller Italian companies which are seek-ing additional funds or consid-

ering some form of buy-out.
UK houses have been particularly prominent in venture capital. Schroders' Italian Fund, which was the first of its kind, has L100bn at its disposal from a variety of UK, US, Dutch and Japanese insurance companies and pension funds. Meanwhile. Rothschilds has established a \$30m Italian equity fund, with financing coming from European institutional investors, which have taken stakes of up to \$5m each. Most recently, Baring Capi-tal Investors, which has set up shop alongside the bank itself

and Investors in Industry (3i), the UK venture capital group, have set up Italian offices to offer their own services.

Demand for buy-outs remains limited, but is also rising. With the first generation of post-Second World War entrepreneurs now reaching

retirement or dying out and their heirs not always wanting to continue the business, interest in buy-outs should blossom,

the bankers say.

There have already been a number of well-publicised deals. Schroders' sale of Cantleri Riva this year followed the financing of an earlier management buy-out by the bank's Italian Ventures Fund

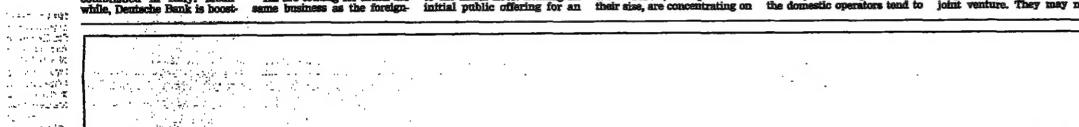
in 1988. Meanwhile Finance, the specialist mer-chant banking subsidiary of Istituto Bancario San Paolo di Torino, now Italy's biggest bank, organised one of the country's biggest leveraged transactions last June. The L121bn deal involved the

sale of Grove Italia, the Italian valve-making subsidiary of Canada's Nova Corporation, to an investment group headed by the bank and including

Grove's existing management Given the number of banks now offering such services, all must be hoping that many more such entrepreneurs come

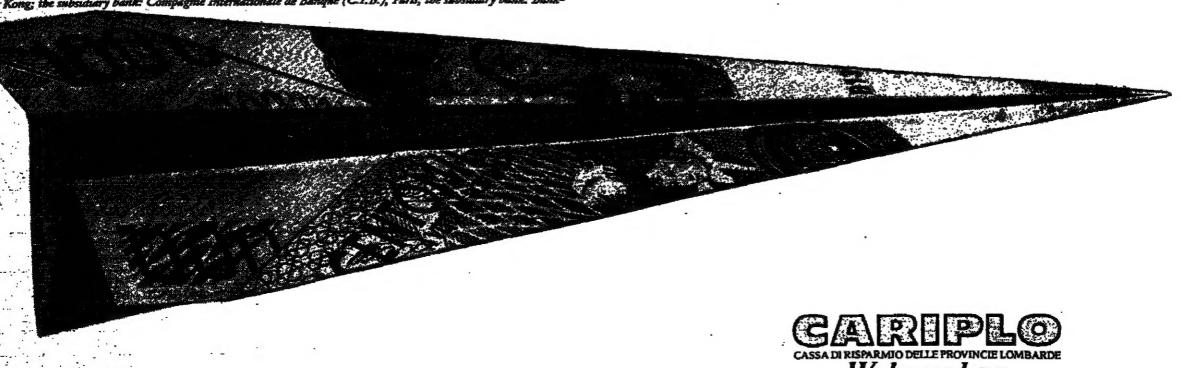
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We know how.

IN RECENT years Italian industry increasingly has been eyeing the Soviet Union as a potential business partner. As part of this process, two Italian institutes of research and higher learning have sought to get in on the ground level. Although their strategies

appear somewhat different, their goals are similar, to train Soviet and western managers, to increase the exchange of information between West and East, and to foster better business relationships between Soviet and western firms and their executives.

The first to get off the ground in December 1988, was MIRBIS (Moscow International Business School), an Italian-Soviet joint venture founded by the Nomisma Institute for Economic Research in Bologna and the G Plekhanov Soviet Institute of Economy in

According to Professor Romano Prodi, a well-known Italian economist on MIRBIS' governing board, the idea behind the school is 'to act as an interface between two systems which for many years have confronted one another at

The country is now leading the way in helping to train Soviet managers, writes Sari Gilbert

# Schools and seminars teach the market

But, says, Professor Prodi, who until last year was chair-man of the giant Italian state holding company, IRL, activi-ties of the school increasingly have been concentrated on the strategic objectives of voca-tional training for the coun-try's managers and better understanding of the USSR system of administrative res-

ponsabilities The school which, because of an alternating governing sys-tem, has an Italian director and a Soviet deputy, plans to introduce a one-year MBA program for younger post-gradu-ates in the near future and is looking for new western part-

So far, however, the bulk of its activities have been short courses, of from four to 10 agers. And most successful, says Professor Prodi, have been those specialised vocational training courses whose participants "all speak the same language", such as that held last spring for managers of the Pansovietic Department of the Meteorological Instrument Industry.

Vast cultural differences have had to be surmounted

Vocational courses given so far, all of which offer a final period of on-the-spot training in Italy, have included seminars for company directors, for financial directors of the Togliatti Autovaz group, for manufacturing heads, for Soviet joint-venture head accountants, for managers of ten Soviet coal mines, for USSR Sherbank executives,

and for Ukrainian biomedical

A recently-held course of instruction for savings bank managers was particularly successful. It led the Soviets to decide to set up an accounting school for bankers and Nomisma will be helping to train the new institutions' instructors in Italy and three other western European countries. Since August, 1989, Russian and western lanuage courses have been offered on the

Although the MIRBIS authorities are generally satisfied with progress so far, there have been difficulties. The Soviet joint-venture law is still in flux, making organisation and forecasts on present and future commitments extremely

Vast cultural differences have had to be surmounted, in training methods, educational goals, curriculum and even day-to-day school administration. Courses have had to be revised. And since few Soviet managers know any foreign languages, teaching is also a problem, with non-Soviet fac-

ulty forced to speak through

But this was all to be expec-ted. "What we're doing is planting a seed," says Profes-sor Prodi, "and everyone knows that that is hard work". At the outset enormous cul-Leningrad International Management Institute (LIMI) = nt venture set up in July 1989 by the prestigious Boccont University business school of Milan and the University of Leningrad, and which since has acquired additional European and Soviet partners: Holland's NMB Postbank group; ENI, the Italian state energy company; the Milan Exhibitions Authority; SNAM, the Italian state engineering firm; the Soviet Institute for the Economy of the World Socialist System; and Zhylsotsbank, the second largest bank in the

Non-Soviet teachers are forced to speak through translators

Part of the Bocconi's overall strategy of internationalisa-tion, LIMTs objectives are similar to that of MIRBIS: to develop a broad program of training for Soviet and international managers and business-men, to carry out joint scientific research, to information, provide consult-ing services, and to promote opment and co-operation

between countries.

But, says LIMI's general director, Mr Angelo M Cardani. "our overall strategy is that of our overall strategy is that of qualifying ourselves as a bonafide centre of academic learning". Since its inauguration late last year, LIMI has provided a series of seminars of up to six weeks on marketing, financing and regulation of foreign trade activity.

Targeted at managers from

Targeted at managers from various branches of Soviet industry, mostly from the Leningrad area and the Baltic Republics and, less frequently, at western business operators, the courses held so far include customs regulations; internal market activity; external market activity; doing business with the Soviet Union; financ-ing external economic activity strategy for entering into the free market area; business principles for Soviet firms;

managing cross cultural differ-ences, and doing business in the USSR

Such seminars, largely technical in nature, are considered an important and useful activ-ity of the business school, forg-ing contacts with the outside business world. However Lim-I's long-term objective is more ambitious and more difficult the creation of a full MBA program, aimed at both westerners and Soviets with an international outlook, that can boast an experienced and pres-tigious international teaching

LIMI officials say setting up the MBA program will require considerable preparation and time. "In the seminars you are passing on technical information; in an MBA you seek to transmit an entire business weltanshaung, not at all an easy matter when we don't even know how far liberaliss. tion in the USSR will go," says

Mr Cardani.
"We need to study the situation," he says. "What set of
values will they end up with?
And think how hard it is to teach marketing when you don't even know the structure of the market."

#### **EASTERN EUROPE**

# Italy's entrepreneurs move in swiftly to examine the market

AS ONE of the world's leading, and most nimble-footed, exporting nations, it is no surprise to find Italy's entrepre-neurs among the first to examine the new opportunities in eastern Europe and the Soviet Union since last year's political

But the Italians have been present in those parts of the world longer than many real-ise. Big insurers such as Gener-ali and Riunione Adriatica di Sicurta (RAS) were among the market leaders in countries such as Czechoslovakia and Hungary between the two World Wars.

Despite their subsequent ejection, Mr Umberto Zanni, the RAS chairman, still perceives an undercurrent of goodwill, particularly among the older generation.

More recently, it has been Fiat which has been the stan-dard-bearer for Italian business in eastern Europe. Following a string of deals negotiated since the mid-1960s, the cars group has gained unparalleled access in a number of east European markets.

According to Fiat, more than half the 2m cars made annually in eastern Europe and the Soviet Union derive from its products. Even when the Ladas, Yugos and FSOs con-cerned are not direct copies of former Fiat models, they betray the Italian group's mechanicals under their skins. Fiat has recently consoli-dated its position in the East with a massive deal to revitalise the Soviet Union's auto

complex at Yelabuga. Having already won contracts for two of the project's three planned stages of 300,000 cars a year each, it is now poised to make the hat-trick. Many of the other Italian

industry at a new industrial

industrial ventures in eastern Europe and the Soviet Union stem from IRI group compa nies. Heavy engineering and plant technology producers are most prominent among the divisions of Italy's giant state holding concern to have won hig contracts in the East. But IRI's telecommunica-

Fiat has been the standard-bearer for Italian business in eastern Europe

tions, energy and aviation electronics subsidiaries have also scored. Meanwhile, companies in the ENI energy group played an important role in building

pumping stations for the Siberian gas pipeline.
Although most of Italy's other entrepreneurial exploits in eastern Europe have been appreciably smaller, they have often received considerable publicity thanks to their origins in high-profile businesses such as textiles and fashion. based in the Veneto region of north east Italy, first set up shop in Czechoslovalda three years ago. Since then it has expanded into Hungary. Its

Mr Benetton has stressed the Importance of local production

Budapest store, which opened last April, is the first of 10 Hungarian outlets which are scheduled to start trading before the end of this year. Stefanel's bigger rival Benet-ton is already represented in

Hungary, Czechoslovakia, Esst Germany and Poland. But the biggest boost for Mr Luciano Benetton, the group's chief executive, came earlier this month with the signing of a long-awaited clothing joint venture with the Soviet author-

Mr Benetton has stressed that the importance of local production if any foreign cloth-ing group is to make a real impact on local markets in eastern Europe and the Soviet Union. Just having a limited number of stores, selling in either hard or even local cur-rency, "has no future", he says. With the contracts for his

manufacturing joint venture now sealed, Mr Benetton is beaming. But even he has plentiful recollections of the delays and frustrations of doing business behind the former Iron

Mr Carlo De Benedetti, the industrialist best known for his chairmanship of the Olivetti computers group, is even more sceptical towards the new markets opening up in eastern Europe and the Soviet Union. While bullish for prospects in the former German Democratic the former German Democratic Republic as part of a now-united Germany, he thinks the shift to a market economy will be a long slog in Hungary and Czechlosovakia, Meanwhile, prospects in Poland and the Soviet Union are bleaker still,

he argues. Mr De Benedetti is not averse to playing the pessimist, and is patently not putting any of his own money into eastern Europe at present. But although his current downbest views put him at odds with many of his counterparts in Italian industry, he has been right in the past.

Haig Simonian

# THANKS TO the engineering know-how of a little known Turin group, the Soviet Union is beginning to tackle the problems of storing and distributing perishable foods. Ensuring that meat, milk, fruit and vegetables are properly packed and stored, and reach the Soviet housewives in edible condition is the reason for the Soviet larged meaning the source of the soviet produced in the source of 
condition is the reason for the Sovitalprodmash joint venture in which Fata European Group holds a 27 per cent stake.

When agreement to the project was signed in October 1987, it attracted considerable media interest on the first executions. interest as the first ever joint venture undertaken by the Soviet government. And Sovi-talprodmash claims another record, as the world's largest manufacturer of commercial refrigeration equipment. It is the first of five joint ventures into which Fata has entered with Soviet partners. The most recent, signed a year ago, are Ros-Ital and Sajanal.

Ros-ital and Sajamal.

Fata has a 10 per cent stake in Ros-Ital, a venture in which it is joined by Borgo Nova, an Italian subsidiary of Britain's T&N group. Now getting underway, the Ros-Ital factory at Rostov will be producing 6m vehicle and motorcycle pistons annually when full production regime is reached in two years regime is reached in two years time. The venture is unusual, being the first de-verticalisa tion in the Soviet automobile industry and breaking fresh

#### Joint venture under way

Fata enters the arena of perishable foods

ground in an attempt to create a highly specialised satellite manufacturing system.

share a 30 per cent stake in Sajanal, the Turin bank Istituto Bancario San Paolo di Torino and the large US group Reynolds Metals. Sajanal's factory, located in central Siberia, will make aluminium foil and packaging for the food and pharmaceutical industries. The factory is expected to become

Fata is transferring up-to-date technology in turn-key projects that start with preliminary study and design and run through feasibility study, executive design, equip-ment supply and installation to personnel training and initial plant management and opera-

Food processing is the sector in which the company is now most active. It lays claim to providing pace-setting technologies such as the ultra high temperature process for long In addition it has worked extensively in cold and deep freeze storage, in slaughtering

and meat preservation and the design and engineering of many other food processing

While Fata's emphasis today is on the food sector, it is not lowering the importance with which it regards other areas of factory automation. Indeed as the Ros-Ital and Sajanal Soviet joint ventures show, non-food sectors are of great signifi-cance. For the Sajanal project Fata will be supplying all machinery and plant, wholly Italian-built, to a value of Labour. The figure at Ros-Dal

Fata sells expertise to diverse industries and in many applications. Materials handling, automated guided vehicles, storage and retrieval systems, welding systems, welding systems, and technology for dies, aluminium casting and foundries give Fata an engineering breadth.

Although the company's

head offices are in Turin, which is also the site of its tre, its food division is located in Parma, an important food processing centre where the large Cibus food fair is held, and there are foreign subsid-

About 85 per cent of last year's L550bn turnover was recorded outside Italy. The biggest market was Europe which excluding former Eastern Bloc countries, accounted for 42 per

cent of the total.
Second in the company's export rankings was the Soviet Union, which alone generated 25 per cent of sales and undertionship that dates back to 1959. "Fata has always believed in the development of East European countries and partic-nlarly the Soviet Union, and Group policy will continue in this direction," says the com-

Doing business with eastern Europe has contributed signifi-cantly to turnover, growth, of about 60 per cent in the five years since the L350bn was recorded in 1985, and to an order book that presently stands at about 11,000ba. But the company is reticant about

However, profitability would certainly have been a matter of

interest to Fata European Group's bankers, and to mer-chant banks San Paolo Finance and Cofilp, over the past two years. Company management initiated a L140bn buy-out two years ago, and in September Sweden's Tetra Pak acquired a 10 per cent stake in Fata's

Behind the MBO was the purchase of Babcock Interna-tional by another British com-pany, FKI, in 1987 and the widely mentioned decision of the new owners to dispose of Fata European Group. The MBO operation completed this year sees the group, whose his-tory dates back to 1936, return to Italian ownership after 18 years in foreign hands. In 1972 it became part of the US Acco corporation, itself subse-quently acquired by Bacock in

Following the Tetra Pak operation, which includes agreement on the joint devel-opment of activities in the agriindustry, food and pack nousity, food and packaging sectors, merchant banks hold 14 per cent of Fata European Group's equity, Reynolds Inter-national hold 10 per cent and other industrial pertners 20 per cent. With 28 per cent, Fata's management hold the same smount of equity as the Fin-meccanics sub-holding of the IRI state holding corporation.

**David Lane** 

#### SEGAFREDO ZANETTI

# Small businesses prepare for future in united Europe

WITH 1993 approaching, many Italian industrialists are convinced that "hig is beautiful". But small can also be lovely. Segafredo Zanetti, the Italian coffee maker and food producer is one of those smaller, more rare Italian companies that own the next companies. that over the past several years

that over the past several years has been preparing actively—and successfully—for the new European single market.

"There's nothing frightening about 1993," says Mr Massimo Zanetti, chief executive officer and owner of Segafredo, which with total revenues of LS34bn turned up 100th on a recent turned up 100th on a recent size listing published by the Italian weekly, Mondo Econom-

Segafredo produces some 60 Items

Segafredo, which with some 30,000 customers is the num-ber-one cuffee supplier to fini-ian cafés, bars and restaurants, is well positioned for the new

Europe.

Today, 60 per cent of its revennes come from foreign sales to Europe, North America, Australia and Taiwan. And in the mid-eighties the company began a series of acquisitions in Europe — Austria, France, Portugal, Spain and, more recently, Germany - that have helped win it a 4 per cent share of the largely conglomerate-dominated European market. Mr Zanetti, 42, who comes from a family of coffee import-ers, in 1973 bought Segafredo, a small, local Bologna-based coffee company from its previous owners. Establishing an innovative and active marketing policy stressing "quality and service" (the company's slo-gan), he gradually established a nationwide sales network.

a nationwide same network.

The next step was diversification. Today Segafredo, which is totally self-financing, produces some 80 products ranging from various roasts and blends of coffee (espresso, home correspondent depaffainated). home espresso, decaffainated filter), and professional espresso machines, to powdered beverages (instant tea and coffee, cocoa, chicory and barley coffee) and sweets such as chocolates, torrone, pudding and panettone cake.

Next came the acquisitions abroad, including Vandour-Danon, the third-largest coffee producer in France. And more recently, Mr Zanetti inaugurated a series of franchised rated a series of franchised Segafredo "coffee-boutiques" (those opened so far include Rouen, Bordeaux, Nantes, Lille, Paris and Vienna) through which he plans to export "fiziy's coffee culture".

With profits last year of over L4hn, high profitability and liquidity, and a moderate level of indebtedness, Mr Zanetti has every reason to feel satisfied.

One problem is the decline in world commodity prices, "which keeps sales values from growing", while other costs at me continue to grow. Fortunately, coffee-production is capital, not labour, intensive, and with only 700 employees in Italy, Mr Zanetti is less affected than other Italian entrepreneurs by rising wage

But he would like to see fur-

Mr Zanetti is confident he can still expand

ther expansion, particularly in the Italian grocery sector. When it comes to family coffee consumption, at present Segaf-redo, with 6 per cant of the Italian market, is only third, lagging behind Lavazza, the large Italian independent Ital-ian coffee-maker, and Splendid Coffee, a subsidiary of Procter and Gamble.
"It won't be easy," he admits. Coffee consumption is generally highly habitual and thus static. This means that

generally there are only two ways to increase one's market share: through massive advertising investments or partnerships with (or acquisitions of) small, local companies. "We are involved in various negotiations," says Mr Zanetti. What about the challenge

what about the challenge from the conglomerates in an area — food and food process-ing — which in recent years has shown a strong tendency towards concentration? "In general the big shifts have already taken place," says Mr Zanetti



Mr Zanetti appears confident that he can continue expansion, both inside Italy and abroad, without losing his independence. But he does not rule out the possibility of taking his company public. Some-time in the not so near future the company might even be listed on the Milan stock exchange, so that minority par-ticipations could be sold.

"But," he says, hinting at the future possibility of a major

acquisition, "it would have to be something really special."

# Coeclerici Group

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# **Bold hopes fade fast**

trail of vitriol between Mont-edison and Eni, its private and public-sector co-owners, all are agreed on one theme. The group urgently needs to restructure its activities if it is ever to realise the bold hopes set out in its founding business

Enimont's wees fall into two categories; short-term prob-lems dictated by the current downturn in chemicals demand and overcapacity; and long-turn structural ills based

on a lopsided business mix.

The group's short-term diffi-culties have been exacerbated by the rise in oil prices follow-ing the Gulf crisis; which has in turn triggered a run on cer-tain key primary materials like virgin naptha. In early August, Mr Sergio Cragnotti, Enimont's chief executive, warned that the invasion of Kuwait was adding L50-70m a month in raw material costs.

Earnings for the first half of this year testified to the depth of its current troubles. Net profits tumbled to LISIbn from L526bn in the corresponding period last year, while sales fell by 12 per cent to L7,196bn. Some 2,000 temporary lay-offs have already been amounced; more may be to come.

In the longer term, Knimout, which to the control of the con

which is the world's minth biggest chemicals group, needs to follow the example of some of product portfolio. The com-pany needs to reduce its valnerability to falling demand and increasing competition in some commodity chemicals by developing higher-value non

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IRRESPECTIVE OF who owns overcapacity and low prices; Enimonit, the Italian chemicals joint venture which has left a trail of virtial between Montanaker of bulk plastics. Moreover, on a world basis,

it is one of the largest manufacturers of ethylene, the bulk chemical used as the main component for many other types of synthetic materials. While Enimont must lower its ist also develop its activities in higher-margin activities, such as certain engineering plastics, PRT plastics for pack-aging, and fine chemicals, where it is already present.

Reimont must also become much more international. The

Short-term difficulties have been exacerbated by rising oil prices

company currently derives around 55 per cent of its sales from its home market, against around 25 per cent for the big three German chemicals groups and Imperial Chemical industries. And it is particularly weak in the far east, which is expected to account for much of the growth in chemicals demand in the 1390s. Moreover, while other manu-Moreover, while other manu-facturers have shifted products, as well as sales, abroad, Enimont still makes about 80

But it is too early to write the company off. Mr Cragnotti - admittedly partial - has talked of a concern that could still be the envy of the world. commodity parts of the bosiness like drugs, agrochemicals, and engineering plastics.

On a Buropean basis, Emmont is currently the third biggest producer of fertilisers, one of the sectors worst hit by

per cent of its output in Italy,

much more competitive. Some steps have already been taken. So far this year, Enimont has sold its majority stake in Auschem, a subsidiary making chemicals for the tex-tiles and other industries, and Sciavo, its pharmaceuticals

> Further disposals may folbe up for sale, along with some of Enimont's refining capacity. And it has confirmed discussions are taking place with Fertilizantes Espanoles of Spain on possible co-operation

> Attempts at acquisitions have proved less successful. Enimont's bid to buy the Polysar rubber division of Canada's Nova Corporation, foreshad-owed publicly by Mr Cragnotti in May, proved disastrously embarrassing just days later embarrassing just days later when the company was pipped by Bayer at the post. However, such deals are just part of what is required for Enimont to begin realising the potential which its minority shareholders, who hold the 20 per cent of its equity listed on the market, were lad to expect when the company was launched. So far, they have been bitterly disap-

Gestioni e Partecipazioni Industriali (GEPI) will cele-brate its twentieth birthday next year. Since its establish ment by state-owned invest-ment bank IMI, which has 50 per cent of share capital, and state holding corporations IRI, ENI and EFIM which have equal stakes in the remaining equity, GEPI has coined a new

GEPI-isation means the state hospitalisation of terminally sick manufacturing companies Originally conceived as Italy's industrial lifeboat, on call to prevent companies from sinking and for re-launching them after rescue, Rome-based GEPI like a corporate morgue:

It was conceived when Italy's post-war economic miracle was starting to flag, and the first shadows of crisis were appearing. Its support aimed at job protection, corporate turnround and the return of companies to private owner-ship and the market," says Mr Benedetto De Cesaris, GEPI's

Mr De Cesaris admits that many companies have reached GEPI in conditions that are beyond resuscitation. Politics has often been dominant among the factors determining GEPT's intervention, with pow-erful politicians rather than industrial logic calling the

Nevertheless, Mr De Cesaris can point to some successes, a total of 205 companies having been turned round and returned to private ownership since GEPI's inception. Last year it was able to transfer 21 GEPI

# Industrial lifeboat is seen as a graveyard

Unit billion lire	1996	1957	1988	1969
Finance supplied to companies	453	525	410	454
State Funding	210	210	220	210
Self financing	300	320 215	245	272
Deficit from investments	232	215	202	203
GEPI's net loss	193	187	185	185

companies from its books to other owners.

Though GEPI's sphere of action was initially nation-wide, in 1977 parliament decided that new interventions should be limited to the south. "GEPI has progressively disen-gaged from investments in the north," says Mr De Cesaris.

However, he admits that there have been occasions since 1977 when the corpora-tion has been called to aid northern companies.

Mr De Cesaris notes that

operating Italy's Mezzogiorno esents problems. "Often conditions do not exist for turna wholly new business approach are required. Worknative employment is not available. Local social forces and heavy political pressure aim at job protection," he says. GEPI has attempted to create a framework for resolving its difficulties by placing its investments in two categories. Companies in the first have

Many companies have reached GEPI in conditions

beyond help

real turnround potential while those in the second are terminal cases where the objective is labour re-use. In the second case, management of cassa integrazione guadagni, the labour lay-off fund, is the main

At the end of last year there were 23,000 workers in 65 companies benefitting from the fund, against 11,000 employed in 99 manufacturing and 17 service companies where turn-round is expected. About 80 per ent of GEPI's total payroll is

in the Mezzogiorno. "We have recently prepared a new strategy, in which we sise that industrial considerations are paramount. GEPI should not have a func-tion in implementing labour policy," says Mr De Cesaria. Key points of the strategy

• respect for the principle of proper use of funds

continuing emphasis on
small and medium sized com-

 avoidance of no-hopers creation of employment opportunities

• greater emphasis on active role rather responsive. Noting that southern productivity is lower than elsewhere, Mr De Cesaris says that labour contracts should reflect this. He considers that the difficulties of large manufacturing companies in the Mezzogiorno underline the need for GEPI to encourage small service firms.

"The corporation has consid-

The corporation has considerable experience of working in partnership. Of our 99 opera-tional manufacturing firms at the end of last year, 53 were investments in partnership with third parties, adds Mr De Cesaris. He believes that this gives GEPI, which uses outside consultants extensively in tem-porary management positions in companies where it intervenes, real awareness of the private sector.

The large number of privatisations undertaken has also provided contact. In contrast to IRL ENI and EFIM, GEPI has not encountered political difficulties in privatisation

Privatisation operations have generated part of the funds needed for financing interventions, which last year absorbed L454bn. State funding of L210bn in 1989 helped cover GEPT's net loss of L185bn that arose from its own operating expenses of L40bn and an aggregate deficit of L203bn among its investments. Running a lifeboat operation does

David Lane

#### SHIPBUILDING

# **Orders** strong for the present

THERE WAS a large measure of pride at Raly's state-owned shipbuilder Fincaustieri when the lussary spatie lines, Courn Princess was delivered to Britain's P&O group at Trieste's Stazione Maritima at the end of June. The glesming wholly positive. Mr Bocchini. But Ralian shippuilder princess was delivered in June last year of Law 234 for assisting shipping and shipbuilding. The effects of the legislation have not, however, been wholly positive. Mr Bocchini. white vessel with its sleek, inturistic lines represents a tri-umph for italian shipbuikling.

The Crown Princess project hull number 5839 was not laid down at Pincantlerf's Monfal-cone yard near Test until June 1988, Buiking the 70,000-grossionnes lines which — June 1988. Building the 70,000-gross-tonnes liner, which with high technological sophistication and comfort accommodates 1,700 passengers and is manned by a crew of nearly 700, was worth L500bn to the Italian shipbuilder. And a sister ship, the Regal Princess which will be delivered in spring next year, is worth a similar amount.

With the two P&O vessels

with the two P&O vessels and an order book that includes two cruise liners for the Italian line Costa Croclere

Few expect today's high level of building activity to continue

and three for Carnival Cruises of the USA, Fincantieri boasts the world's biggest portfolio in the sector. The company says that this healthy situation has historical basis in the reputation that Italian yards have rejected for designing and enjoyed for designing and building fast, elegant passen-ger liners since the beginning

ger liners since the beginning of the century.
However, much has happened since the heyday of Italian shipbuilding and few expect today's high level of orders and building activity to continue. Nevertheless Fincantieri now has an order book totalling L8,000hn which is almost four times the value at the end of 1988.

the end of 1988. Representing about one half of shipbuilding activity in Italy, Fincantieri is a thermometer for the industry as 2 whole. Indeed, other yards, in the private sector, are also benefiting from improved market conditions. In reporting on 1989, the association of Italian shipbuilders, Assonave, was able to be more bullish than

for many years.

"Production of just over 300,000 gross tonnes in 1989 at last allowed a generalised, satisfactory utilisation of productive capacity, wrote Assonave's chairman Mr. Enrico Bocchini. He noted a good flow of orders in addition to the 590,000 gross tonnes that were received at the end of 1988 after two years of famine.

The upturn in world ship-ping has at last been reflected in the shipbuilding sector,

says that there have been problems in its application, particu-larly in determining the capac yard that should be recognised for assistance.

Moreover, Law 234 attracted critical attention from Brussels and the initiation of action against Italy by the RC Com-mission, concerned about violation of competition policy. Mr Bocchini stressed that the issue must be wrapped up urgently so that Law 234 can be implemented. It will only then be possible to take practical steps in disbursing finan-cial contributions, particularly those regarding new construc

those regarding new construc-tion orders."

Meanwhile, Italian shipbuild-ers have been viewing Law 234 as an opportunity to compen-sate for recent bleak years. Mr Bocchini noted that severe self-criticism is called for."

Law 234 has generated evere. "Law 234 has generated expec-tations in not a few members that seem wholly incompatible with existing production capac-ity and in contradiction with the spirit of the law itself."

Assonave's chairman emphasises that national plans for the sector, EC decisions and indications in Law 234 not only seek to avoid capacity increases but also aim at fur-ther rationalisation. He underincreases out also aim at fur-ther rationalisation. He under-lines the need for the govern-ment to provide the financial cover necessary for the early retirement of about 5,000 work-

ers over 50. Overall, Italian shipbuilding Overall, Ralian amphuliting presents a contrasting picture. The sector is exploiting the current positive situation, but few would bet on finding fair conditions over the horizon. In the sector none provides a better example of light and shade then Fincantieri.

While the state corporation is sailing steadily ahead with building merchant ships, its military division is navigating in a full-blown financial and legal storm. The \$3,500m fraction order signed in February 1980 has widened the hole in Fincantieri's accounts.

Only two corvettes and a support vessel have been delivered. But the corveties have been blocked for years in La Spezia and the support vessel travelled no further than Alexandria. With a further four corvettes and four frigates built but not delivered, and also lying at La Spezia, and with half of the contract price received, the company risks a lawsuit. Fincantieri certainly needs its Crown and Regal Princesses to compensate for the rest of the Iraqi fleet.



#### The hurdles remain

LIFE CAN be tough for the new or growing company in Italy. Despite a plethora of specialist advisers and banks which have sprung up in recent years, budding entrepre-neurs still complain of a system that often seems more inclined to smother rather than spearhead the nascent

Some of the problems, such as poor public services or the dinate amounts of red tape that have to be surmounted in setting up a company, are peculiar to Italy. Others, like limited access to venture capital and unsympathetic bank-ers, are familiar obstacles from elsewhere in Europe too. But, taken together, the combination can create an atmosphere which makes starting a new business unappealing in Italy.

Most entrepreneurs need little prompting to launch into a tirade against Italy's public-sector inefficiencies. An atrocious postal service, unreliable rail and air links and a telephone system that is only now beginning to benefit from the fruits of long-overdue invest-

bugbears. Mr Mario Possati, the chairman of Marposs, a big family-owned business which makes sophisticated measuring equip-ment for machine tools, is one entrepreneur whose business has grown from tiny roots in the late 1950s to a world-class

Based near Bologna, Mar-poss exported almost 90 per cent of its L105bn parent company sales last year and is a world leader in its field. However, Mr Possati needs little prompting to recount some of the problems he faced, few of which have changed today, he

Banks were unsympathetic for a start. "There was an absolute lack of a banking mentality which understood the needs of a company which was grow-ing. The banks here were exactly the opposite of what they should have been," he

Although there have been improvements on the financial side, many of the public-sector barriers, notably regarding infrastructure, remain. "The plane which doesn't leave, the train which is late are all types of costs for an Italian business," says Mr Possati.

But whatever the problems with Italy's public-sector companies and services, it is bureaucratic harriers which are the biggest obstacle to a budding Italian entrepreneur today. Just setting up a company can

be an endurance test. Whereas a UK limited company can be created in a matter of hours. the process is far more compli-cated in Italy. It takes around two months for the local tribunal to give the new enterprise its all-im-portant omologazione – regis-tration. Without it, the pro-

Bureaucratic barriers are the biggest obstacle to the entrepreneur

spective entrepreneur is powerless. Bank accounts cannot be opened; assets cannot be bought: even stationery cannot be printed, as it has to carry new company's registra-

Detailed information has to be submitted regarding a new company's directors and owners as part of the registration process, all of which has to be authenticated by a public notary. Rather than the more complex form of a Societa per Azioni (SpA), akin to a public limited company in the UK, most small businesses in Italy opt for the status of a Societa a responsabilita limitata (Srl) roughly corresponding to a

limited company in the UK.

SpAs require a minimum share capital of L200m, while Sris need only L20m. Moreover, any Srl with less than L100m in share capital does not need to appoint a board of statutory auditors, meaning that it faces much less onerous reporting

Foreigners in particular can other practical problems that can impede getting a new company off the ground. Manufac-turers tend only to work to order rather than holding large stocks, meaning that office furniture usually takes around six weeks to deliver. And telephone installations can be a nightmare, with a high chance of delays and confusions. Even fax and data connections.

although much more commonplace now, can require consid-

rable patience. Local chambers of commerce can provide some assistance, while the large number of industry federations and trade association can also be sources of market-related advice.

Access to public-sector financial help is more tricky. State grants, involving a mixture of tax concession and financial incentives, tend to be limited to the Mezzogiorno region of southern Italy. Although cer-tain types of financial assis-tance are also available in the north, they are restricted to difficulty, such as the moun-tain regions of Lombardy and

the Alto Adige. Even when the new company is set up, the bureaucracy does not end there. For all its reputation as a free-whee economy where individualists thrive, Italian executives have to cut their way through a maze of red tape. Many of the requirements stem from successive attempts to reduce tax evasion.

But the result can sometimes be to create a web of highly complex paperwork. "Italian accounting is incredibly detailed, particularly when it comes to dealing with the expenses that can be set against tax," says Ms Wendy Rimmington, the head of Pen-guin Italia, the Italian subsid-iary of the UK publishing

For example, special types of forms have to be complete when it comes to buying petrol for company cars, or entertain-ing at the company's expense. An office even has to keep a formal register of where its formal register of where its employees are at any given time. It is no surprise that many big companies produce their own "nota spese" — the in-house "hible" on how to deal with expense claims, which they distribute to all employ-ees likely to be affected. ees likely to be affected. Ms Rimmington, who recalls having to set aside a whole day

to try and master the regula-tions with the office accountants, reckons the system has at least one advantage. "From the company's point of view, it's wonderful, as it means expenses claims are foolproof."

# Italy's first anti-trust law will loosen grip of public and private industrial power

"THIS IS my child and I am very proud of it," says Mr Roberto Cassola, the Italian senator who has devoted much of the last two years of his life to supervising the parliament's tortuous delivery of Italy's first ever anti-trust law.

A 49-year-old Roman, Mr Cassola is an unusual phenomenon in Italy. He is a modern, reformist Socialist, but there are others claiming similar cre-dentials. What sets him apart, however, is a readiness to work hard at the grindingly difficult process of legislating, rather than posturing in favour of change.

As chairman of the Senate's industry committee, he began the process of trying to nudge Italy towards a competition law by launching investigative hearings on the subject more than three years ago. The results encouraged the

overnment of the day to present its own draft law just under a year later which Mr Cassola's committee then considered alongside a private initiative by his fellow senator. Mr Guido Rossi of the Independent Left.

The final version which cleared the parliament at the end of September had been substantially changed from the original drafts, not least because the new law also con-tains strict limitations on the freedom of private industrial companies to acquire stakes in credit institutions.

There is no clear logical rea-son why such inhibitions should appear in an anti-trust law, but most politicians and the Bank of Italy wanted it that way. The importance of this law is that it is a vital step towards making Italian capital-ism more transparent," says

Mr Cassola.
This was an almost heretical objective three years ago when only a small minority of politicians were ready to put their heads above the parapet and argue that the public interest needed defending against both public and private industrial progress in their

power in Italy.

The former is in the grip of the main political parties for whom correct behaviour in the market place is of secondary importance to their control of returners and finance through paironage and finance through public sector companies. The latter is still dominated by that small oligarchy of entrepre-neurial podrone whose wheel-ing and dealing is frequently inspired, financed and legitim-ised by Mediobanca, the Mila-nese merchant bank whose

# Curbing cartels

strongest gesture in the direction of transparency is the small brass name plate on its front door.

Italy is thus left with an industrial economy dominated by public and private conglomerates. They frequently enjoy cosy relationships with banks, have a taste for controlling insurance companies and own-ership of newspapers and mag-

It is unlikely that the new anti-trust law which should come into force around the turn of the year, will quickly alter this profile of industrial power in Italy. But it does offer

consumers and smaller busi-nesses the opportunity to seek redress against abuses of dominant market positions and some protection to society as a whole against the corporate tendency to seek easy gain through acquisitions which stifle competition.

of the law. The main bulwark against this danger in Italy is to be an independent Guaran-

tee Authority whose members will be nominated by the presidents of the two house of par-liament, rather than by the government. No reliable estimates are

available of how many mergers and takeovers the authority may be required to examine. But the thresholds set by the Industry itself eventually law - L500bn domestic sales dropped its early opposition to regulatory legislation once it resulting from a merger and any takeover of a company was persuaded that certain safeguards were being created against political, and therefore discriminatory, manipulation with a turnover of more than L50bn - suggests that the vol-ume could be high.

Industry's resigned accep-tance of the law was also encouraged by the realisation

that without an anti-trust law of its own, the Italian position in the European Community would be foolish rather than

just anomakous. The EC has fully armed itself with new procedures and regulations for enforcing competition in the single market, and traly clearly had a responsibil-ity to provide supporting regu-lation in its own national terri-

According to Mr Cassola, it is also capable of flexibility and dynamism. "Since We are facing a future of enormons changes, we have not sought to impose tight restrictions on the application of the law. Rather, we have created an authoritative structure with discretion

ary powers." John Wyles

# The scope of the new law

The law applies to both state-owned and private com-panies and seeks to outlaw both agreements which restrict free competition and abuses of dominant position. It also subjects all mergers above a cer-tain threshold to scrutiny for their impact on competition.

• Restrictive agreements. All agreements which consistently

sim at "restricting, impeding or falsitying" competition in the domestic market are forbid-den. Such agreements may involve price fixing, production limits, investment or technological developments as well as market sharing or supply shar-ing, and discriminatory treat-ment of third parties providing equivalent services.

The Guarantee Authority can allow derogations to these restrictions for a limited period if they improve supplies to the market or "substantial benecan allow derogations to the fits" to consumers.

• Abuse of dominant position.

It is forbidden to impose directly or indirectly purchase and sale prices which are "unjustly burdensome" to dam-age consumers by limiting production, market access or tech-nological developments, and to discriminate against third parties supplying equivalent ser-

 Concentrations, Concentration takes place when two or more companies merge, when one or more subjects in control of one company acquire con-trol of another by one means or another, and also through

the establishment of a joint vanture. Co-operation between independent companies is not regarded as concentration nor is temporary acquisition of control by credit institutions for a period of less than 24

A concentration is forbidden if it leads to or reinforces a dominant position in the national market so as to reduce or eliminate competi-

Control is defined as the ability to have "a determining influence" on a company's activities through ownership of property or capital, or on the composition of its decision-making bodies.

The Guarantee Authority.

The authority "will work with full autonomy and indepen-dence of judgement" and will be a collegial body made up of a president and four other mbers. They will be nominated by the presidents of the two houses of parliament. The president is to be a per-

son of "known independence" who has previously occupied responsibility and impor-

His four colleagues will be also of known independence and chosen from magistrates sitting on the Council of State, from the Court of Accounts and the Court of Cassation, university professors of econ-omy and law and people of recognised professionalism from an economic background.

appointed for seven years and cannot be reappointed.
 Notifying Concentrations.
 All concentrations which create a company with national sales exceeding L500hn or a takeover of a company with national sales above L50bn must be notified to the authority. These values will be raised annually in line with the price deflator of gross domestic prod-

If the authority judges that the concentration may be in the concentration may be in the law, it must open an abvestigation within 30 days. It must then issue its judgement within 45 days which can be extended for another 30 days if companies have not supplied all informa-tion at their disposal.

The authority can order a concentration to be suspended during the period of its investigation. If it concludes that a concentration is anti-competitive, it can forbid its comple-

If this order is ignored, sanctions can amount to between one and 10 per cent of the sales of the company which is the object of the concentration. Failure to observe the notifica-tion requirements could trigger sanctions of up to 1 per cent of the offending company's previ-ous year's sales. Government powers on con-

centration issues. The govern-ment will determine "in a general way" the criteria by which the authority can in an excep-

The members will be tional situation authorise a concentration which breaches the law. In such a circumstance considerations of the national economic interest in the context of European inte-gration should apply:

• Investment in credit instin-tions. All investments leading to a capital stake above 5 per-cent or leading to control of the institution must be authorised by the Bank of Italy. Each additional holding above 5 per cent must also be authorised by the central bank subject to a maximum permit-ted holding of 15 per cent by any entity which is not also a credit institution. One or more investors participating in a voting syndicate shall be judged to be in control if they

ordinary shares. Existing stakes of more than Existing states of more train

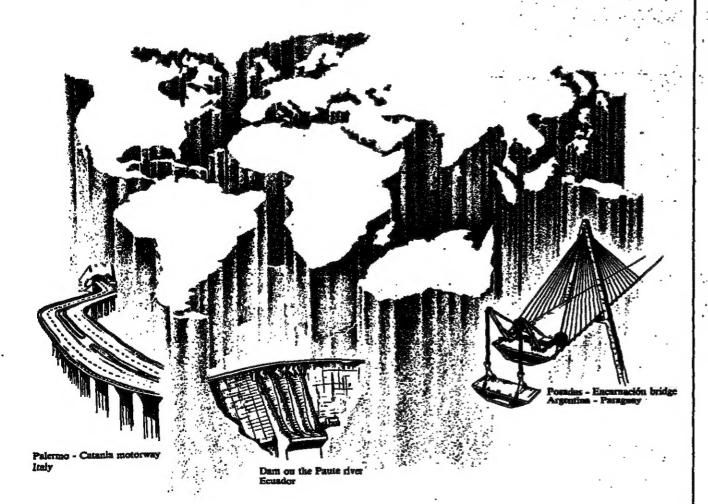
1 per cent must be notified to
the Bank of Italy within 60
days of the law coming into
force. Stakes above 5 per cent,
or those which yield a position
of control may be considered
authorised if the central bank
has not ruled otherwise within has not ruled otherwise within 180 days of notification.

own more than a quarter of the

Existing holdings by public bodies may consider them-selves authorised. The inter-ministerial committee for credit and savings will deter-mine the criteria for permitting, suspending or revoking the central bank's authorisa

John Wyles

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